

THE AMERICAN WAY

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OUR  
INTERESTS  
AS CONSUMERS

*By*

DOROTHY HOUSTON JACOBSON



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OUR INTERESTS AS CONSUMERS

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IX	METHODS OF ACHIEVING OUR INTERESTS AS CONSUMERS	161
	Education Can Help the Consumer, Testing Agencies Help the Consumer, Business Takes Steps Which Help the Consumer	
X	GOVERNMENT AND CONSUMERS' INTERESTS	182
	Services Provided by the Government to Consumers, Rural Electrification, Federal Regulation of the Sale of Food, Drugs, and Cosmetics, The Federal Trade Commission and Consumer Interests, Other Government Regulations of Advertising Practices, Government Regulation of Meat Sold in Interstate Commerce; The Grading of Meat by the Federal Government; Other Voluntary Grading Services of the Federal Government, State and City Governments Protect Consumer Interests; The Increasing Interest of Government in Consumer Welfare, How Much Should Consumers Do for Themselves Through Their Government?	
XI	CONSUMERS COOPERATE TO ACHIEVE THEIR INTERESTS	227
	The Story of Rochdale, The Rochdale Principles of Consumer Cooperation, What Is Consumers' Cooperation? Early Development of Cooperatives in the United States; American Farmers Build Consumers' Cooperatives, The Development of Cooperative Stores; The Development of Cooperative Wholesales, The Importance of the "Co-op" Trade Mark; Cooperative Housing Associations; Cooperative Insurance Services, Cooperative Automobile Insurance, Cooperative Health Services, Rural Electrification Cooperatives, Credit Unions; The Cooperative Method of Providing Credit for Consumers, Consumers' Cooperation Throughout the World, Success of Cooperatives in Great Britain, Swedish Cooperatives Curb Monopolies; Cooperative Development in Other Countries, International Cooperative Organization, An Evaluation of Consumers' Cooperation	
XII	THE SIGNIFICANCE OF OUR INTERESTS AS CONSUMERS	310
	REFERENCES	314
	INDEX	329





	PAGE
The Functions and Costs of Distribution	65
Price Spreads	70
Installment Sales	83
Growth of Cooperative Wholesale Societies	251
Who Lends Money to Consumers	277
Share of Retail Trade Handled by Cooperatives	286



State's Report on the Regents' Inquiry,<sup>1</sup> "and the educational program, through the secondary school at least, should endeavor to rise above the artificial academic departmentalization which has characterized it in the past, and strive for a broad and life-like plan of study and growth." This same report anticipates the appearance of such a project as the AMERICAN WAY series when it refers to "the cooperative effort set in motion by educators to develop new and up-to-date materials which furnish the broad picture because they start with the common affairs of life, are scientifically accurate because they come from the joint efforts of specialists, and are readable because they are put into words by those who are skilled in writing for the intended users."

Each volume of the AMERICAN WAY series is a self-contained whole, each contributes to an understanding of the functioning of institutions in a democracy. For schools which prefer to organize their social studies programs around individual basic texts, any one of the AMERICAN WAY titles may serve as the core of a semester's work. For those with curricula calling for individual research and extensive reading, all the volumes will be valuable additions to the classroom library. The purpose of the series is one of introduction and orientation, suited to the needs and objectives of secondary schools. The pupil who has been brought to grips with such human problems as conservation, public opinion or security will have acquired the background which makes civics, economics and sociology meaningful. "By its intrinsic nature," says Charles A. Beard, "social science requires some picture of the process in which we live and work and when it is realistically conceived it must deal with what is here and now and also with what is emerging from the here and now."<sup>2</sup>

<sup>1</sup> Luther Halsey Gulick *Education for American Life* A New Program for the State of New York The McGraw-Hill Book Company 1938 Pp 29-31

<sup>2</sup> Charles A. Beard *A Charter for the Social Sciences* Part I Report of the Commission on the Social Studies Charles Scribner's Sons 1932 P 56



conomic group as against that of another. In contrast with such plans, an approach which is based on the satisfaction of our interests as consumers appeals to the one interest which we all have in common. For we are all consumers, and as consumers our interests coincide with those of all our neighbors. As consumers we have no class distinctions. We can work toward common goals. It is for this reason that the increased attention to consumer interests is one of the most hopeful of modern developments, one that should be understood and encouraged.

Increased emphasis on the consumer's point of view has manifested itself in many ways. Public interest is reflected in the space given in current periodicals to consumer problems, and in the number of books published on the subject. Numerous organizations, some of which have been founded for that express purpose, give attention to the consumer. Our educational institutions are constantly devoting more time and energy toward an understanding and appreciation of our interests as consumers. In our high schools especially there has been an attempt to offer an opportunity to study the most essential aspects of consumer problems.

This book has been written to meet the need for introductory material for those studying their interests as consumers. It has been organized primarily from the point of view of the needs of a high school course in social studies, but its adaptability to other groups and other courses has been constantly kept in mind. It is hoped that the material in this book may be used not only as a basic text in consumer education, but also as supplementary material for other courses in social science, in orientation, business and home economics courses, as well as by adult groups interested in the subject.

The main purpose in writing this book has been to present an understanding of the importance of our interests as consumers, the major problems which we face in achieving those

interests, and the various methods by which consumers are attempting to attain their goal of a better standard of living. The book is not a buying guide; nor has any attempt been made to evaluate specific commodities and services. The emphasis is rather on the achievement of an understanding of our problems and how they developed; a knowledge of the facts—or how to ascertain those facts—necessary to their solution; and a recognition of the responsibility of all citizens in a democracy to act intelligently after an honest consideration of all sides of a question.

The suggested activities at the end of each chapter are designed primarily to develop independent thinking and judgment. They are not meant to be complete, but to suggest further kinds of activities to be related especially to the needs and interests of those using the book. The references listed are limited to those selected from the point of view of their value and availability, and sources of additional bibliographies are given.

There are several persons to whom I owe gratitude and appreciation for the encouragement and assistance they have freely given. Miss Ruth Ersted, Supervisor of School Libraries for the State of Minnesota, read and offered helpful criticisms of much of the manuscript, and gave valuable assistance in the preparation of the bibliography. My thanks are also due to Dr. A. B. Caldwell, Deputy Commissioner of Education in Minnesota, for his suggestions in regard to both organization and content, and to Dr. John G. Rockwell, Minnesota Commissioner of Education, not only for helpful suggestions but also for his recommendation of a leave of absence which made it possible for me to write this book. Finally I wish to express my thanks and acknowledge my indebtedness to my husband, George W. Jacobson, whose first-hand knowledge, experience, and understanding of consumer cooperative organization has been an invaluable contribution.

D. H. J.





OUR INTERESTS  
AS CONSUMERS





ties for representatives of various groups to state their arguments before the committees. Such representatives may give their reasons why the rates should be high or low. They may state their opinions with regard to what products should be subject to tariff duties. Usually the groups that are represented are directly interested in a certain product.

Wool growers will want a high tariff on raw wool, so that foreign products will not compete with the wool they produce. On the other hand, the manufacturers of woolen cloth will want a low tariff on raw wool, so that they will not have to pay so much for the raw material they use in manufacturing. But they will favor a high tariff on woolen cloth. So it is with thousands of products.

Although in the end the tax is really paid for by everyone who buys woolen goods or articles made of wool, their interests have usually not been presented very forcefully before the committees, if they have been presented at all. An increase in the cost of winter coats may affect millions of consumers who have no very effective way of telling Congress whether or not they think they should be required to pay this increase. On the other hand, the arguments of the producing groups directly interested are presented with much emphasis by men skilled in the arts of persuasion. This, then, is one example of the consumer being forgotten.

If it is true that in this and many similar respects the consumer has been forgotten, what are the reasons for this neglect? The reasons are many, but in the end they can be traced back to the fact that the consumer himself has forgotten his interests as a consumer. To illustrate this we need only go back to the case of the tariff on wool and the price of overcoats. The groups that lobby for high tariff are very much concerned with the law. To them it means large sums of money. To the man that buys one coat it may mean only a few dollars. He would prefer to buy his coat for less, but he does not usually think

that the small saving that might be possible is worth troubling about.

The average consumer does not realize how much the prices which he pays for articles in everyday use have been affected by protective tariffs. An article in *Consumers' Guide* has given an interesting illustration of the extent of tariff protection. The first thing in the morning a consumer is aroused by an alarm clock protected by a duty of 164 per cent. He shaves with a safety razor on which the tariff rates are from 156 per cent to 233 per cent, while his wife lights the stove with a match protected by a duty of 100 per cent. The woolen clothing which he wears was subject to a protective tariff of 89 per cent. For breakfast he drinks coffee which was made in an aluminum pot protected by a 61 per cent duty, from a cup which was protected by a duty of 67 per cent. When he leaves for work he wears a felt hat on which there is a 117 per cent duty. If, during the day, he buys toys for his children he is buying them at prices protected by a duty of 118 per cent. Throughout his life he pays these and many similar duties. And even when he dies his memory is honored by a tombstone, protected by a 60 per cent tariff.<sup>1</sup>

The consumer who has failed to become concerned with the effect of tariff laws on his cost of living is usually unaware of the extent to which protective duties are paid by him. He seldom considers that if a million people were to save a few dollars in purchasing overcoats the total saving would constitute a considerable sum. And if he does become aware of

<sup>1</sup> *Consumers' Guide*, Vol 2, No 11, March 25, 1935, pp 3-6 Note that these figures were cited before the drawing up of reciprocal trade agreements which may have lowered some of the duties. This article points out, on page 4, that "The argument that protective tariffs maintain high wages is incorrect. A recent study of 36 protected and 36 unprotected American industries has shown average wage rates to be consistently higher in the unprotected group. Moreover, the lowest wage rate in the unprotected industries was almost exactly the same as the highest in the protected industries"

the possible savings, he is likely to feel that there is very little he can do about it.

In other words, most consumers recognize, if they stop to think about it, that as individuals they have very little influence. Few of them have until very recently considered the immense power they would have working together. And few have realized the vital importance of their interests as consumers.

Just what are our interests as consumers? How important is the part that consumption, or the act or process of consuming, plays in our lives? We all recognize that we are consumers when we are eating our dinner, because then we are consuming or using up food that is needed for our health or enjoyment. We can readily see that we also consume clothes, for we "use up" our clothing, though fortunately not so rapidly as we use up food. We are also consumers of houses, furniture, and such things as coal, gas, and electricity which are needed to make living in our houses possible or comfortable. In these three fields of consumption, the securing of food, clothing, and shelter, we find our three primary needs as consumers. But there are many other things we need to consume which, although they may not be as necessary to bare existence as food, clothing, and shelter, are extremely important in providing us with the kind of life that is really worth living.

We are all consumers of recreation in one form or another, whether we read a book, watch or participate in games or athletic contests, admire a painting, or listen to a concert. When we attend the movies we are consuming or making use of the services and talents of many people. We are making use of the material and workmanship that went into the construction of the theater and its furnishings, as well as the acting ability and technical skill of the actors and directors who made the picture. In the price we pay for the ticket we are helping to pay for all those things and many others. When we listen

to the radio we are consumers not only of the radio itself but of the talents of the artists or speakers who are performing for our benefit.

Thus far we have seen that we are all consumers of food, clothing, shelter, and recreation. In looking over these fields of consumption, it is clear that we consume both *goods* and *services*. Articles of food are consumers' *goods*, but whenever we sit down to dinner we are consumers not only of the food itself but of the *services* of those who prepared and served it. We are consumers not only of the clothes we wear but also of the *services* of the dry-cleaner and launderer. Similarly, we are consumers of the *services* of plumbers, repair men, and painters who are needed to keep our houses in good condition. In the field of recreation there is an even greater proportion of *services*. In some fields of our interests as consumers, *services* rather than *goods* are of greatest importance.

One of these fields is that of education. In school we are, it is true, consumers of the *goods* which are used in the school building itself, of books, pencils, and paper; but far more important, we are consumers of the *services* of the teachers. Education is one field in which, here in America, we have always recognized and tried to meet our needs as consumers. For the importance of public education has been recognized since the beginning of our history. Our governmental units, local and state, and to a lesser extent the federal government, have assumed the responsibility of providing some kind of education for all of our citizens.

Medical care is another important field of consumers' *services*. We do not need to be told that without health we cannot enjoy fully the consumption of any of the things we want, we cannot get the most out of education, or do our best in our work. And so as consumers we urgently need the *services* of doctors and dentists, nurses and hospitals, and the public health

agencies which guarantee the purity of our water supply and protection against epidemics.

Consumers' services are numerous and varied. We need the services of the beauty parlor operator and the barber, as well as those of the street-car conductor and the railroad engineer. The services of the policeman and the fireman are necessary to our safety. Economists have pointed out that, in the broadest sense, we are even consumers of battleships, since they are necessary for our protection.

And finally, we are in need of such intangible things as guidance, moral courage, and inspiration. Thus we are also consumers of the services of leaders and teachers of religion within our churches and other religious institutions.

Before we can consume, someone must have produced the things we use. That fact becomes increasingly significant as civilization becomes more and more complex. In the most primitive forms of society which existed in regions where the climate and vegetation were most favorable, people had to do very little work in order to live. And while we may momentarily envy the carefree savage who could pick his dinner from the trees, who needed little shelter from the elements, and whose clothing problem was nonexistent, no one would really want to go back to the insecurity of that kind of life, even if it were possible. Today, in order to provide the goods and services we need, most persons who are not too young, too old, or too ill are producers as well as consumers.

Just as we consume both goods and services, we must produce them both. The doctor who treats the sick is a producer just as much as the farmer who raises food and the laborer who works in a flour mill or factory. All those who work are producers, whether they labor in the fields, at a desk, in a scientific laboratory, or in the home. Therefore, while we are all consumers, nearly all of us are also producers during a large



part of our lives. The only exceptions are those few who are never able to work and those who have inherited enough money to supply them with all they want without any effort on their part.

Since nearly all of us are producers, it is important to consider how our interests as producers are related to our interests as consumers. As workers we want the conditions under which we work to be as favorable as possible, but above all we want the wages, salary, or income from our work to be as large as possible. We need that income to secure all the things we need to satisfy our interests as consumers. The principal reason we work, earn money, are interested in better and more stable incomes, is because we want to be able to consume more of what we need and desire.

No far-sighted individual is satisfied with an income which is no more than sufficient to provide his immediate needs as a consumer. Whenever possible he puts aside a certain part of his income in some form of savings instead of consuming it all. This is not because he does not want to use that money for consumers' goods and services, but rather because he wants to have it available to use for those purposes in the future, either for himself or his family. His motive in saving money is the same as his motive in spending it, to provide for his or his family's interests as consumers.

Nations as well as individuals are interested in saving. In the case of the nation, this saving takes the form of the conservation of natural resources. As soon as the people in any country become sufficiently aware of the importance of providing for their future needs they take steps to see that their resources of soil and water, mines and forests are not all exploited for the benefit of the present generation alone. They try to see that all of their natural resources are used and developed wisely so that both present and future generations may receive the greatest possible benefits. A wise conservation policy

is concerned with the consumers' interests of all the people, now and in the future.

We are, therefore, all consumers all of the time, not only of goods but of services as well. Our interests as consumers include our interests in securing the food, clothing, and shelter that make living possible, and the education, recreation, and other services that make living worth while and happy. It is clearly impossible to discuss thoroughly all of the important problems in such an all-inclusive field in one book. What we shall try to do is to gain an understanding of the major problems which we have as consumers, the reasons why these problems are significant, and the methods by which we in the United States are trying to solve them. It is of greatest importance that all of the people in a democracy such as ours should be able to act intelligently with regard to these problems. The extent to which we are able to solve them democratically will be a major factor in determining our future as a prosperous and free country.

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#### SUGGESTED ACTIVITIES

1. Make a list, as complete as possible, of the kinds of goods and services which you have consumed during the past week. Compare your list with those of other members of the class. Then check your list to discover the following (a) How many of the products you consumed did you either buy yourself or help to choose? (b) How many were purchased by members of your family? (c) How many did you produce for yourself? (d) How many of the consumer services which you made use of during the past week were paid for either by yourself or members of your family? (e) How many of the services did you use free of charge? How were they paid for? (f) How many of the consumer services which you listed were provided

by your local government? By your state government? By the federal government?

2. What are some other goods and services which you wanted but which you did not get? What are some of the reasons why you did not get them?

3. Try to find a current news item or magazine article dealing with some important economic problem in which there are indications either that the consumer is "forgotten," or that he is not being forgotten.

4. Consider ways in which you, as a consumer, benefit from, or are affected by: (a) strikes; (b) labor relations laws; (c) dust storms on the western plains, (d) soil conservation programs.

5. An interesting "Quiz program" can be conducted by dividing the group into two sides. Members of one side name laws, government activities, and events which are not ordinarily considered as affecting consumers. Members of the other side must explain in what ways such activities and events do affect their interests as consumers.

[illegible][illegible]

Our consumer problems are of first importance to all of us. Then why have they occupied so little of our attention in the past? One answer to this question may be found in our historical development. Nothing can show the contrast between the consumers' interests of early American settlers and those of Americans today more clearly than a comparison of our daily life with that of the American colonists.

It was very difficult to secure the few manufactured goods which were necessary to build a house. Nails were almost a luxury. At one time in colonial history they were so valuable that people who left one place to move to another would burn down their old houses in order to rescue the nails from the ashes and use them again in building their new ones. This custom even became so prevalent that the colonial government in Virginia, in order to prevent the destruction of buildings,

offered to give to those who left their old houses intact as many nails as remained in the old buildings.

Kettles, pots, and pans were articles which had to be purchased, but many kitchen utensils were made at home. Bowls were carved from wood, and gourds were often used as drinking cups. First, pine knots burning in the fireplace, later candles made from tallow, beeswax, or wax from the bayberry bush supplied light at night. Clothing was made from cloth of wool or flax which had been raised on the farm. The thread had usually been spun at home, and frequently the cloth had been woven on a hand loom by members of the family.

A good illustration of the extent to which nearly all of the goods used were produced at home is found in an old letter from a farmer which was published in a newspaper in 1787, two years before the Constitution of the United States went into effect. This farmer wrote: "At this time my farm gave me and my whole family a good living on the produce of it, and left me one year with 150 silver dollars, for I never spent more than ten dollars a year which was for salt, nails, and the like. Nothing to eat, drink, or wear was bought, as my farm provided all."<sup>1</sup>

This farmer and his family were almost completely self-sufficient. Except for a very few articles, they could produce all they needed. For that reason an income of "150 silver dollars" meant to them real prosperity. But as the country grew in population, as trade developed and roads were built, people became increasingly dependent on products from other places, and it became more and more important for them to secure larger incomes with which to buy those products.

The change was slow and gradual and is still going on. It began early in our history. In many cases the production of goods was not at first taken completely out of the home. Only certain steps in the manufacturing process were done outside.

<sup>1</sup> Earle, Alice M., *Home Life in Colonial Days*, N. Y., 1898, Macmillan, p. 158.

The first step, for example, in the change from home production of candles was taken when wandering candle-makers went from village to village equipped with molds for making candles. Each family still prepared its own tallow or wax, but instead of making candles by dipping them again and again into the melted wax, the candle-maker made them in his molds. A similar development occurred in the manufacture of cloth. Looms were large and unwieldy, and occupied more room than could be spared conveniently in most homes. Consequently looms were built and operated commercially. Yarn which had been spun in the home from wool raised on the farm was taken to the loom to be woven into cloth. The dyeing of yarn and cloth was another process which was taken out of the home while the spinning of the yarn or thread was still a home industry. Step by step people were becoming more dependent on others for securing their needs as consumers.

The change from production of goods in the home and by individual craftsmen to their production in factories was part of the industrial revolution, a change which had begun in England before the time of the American War of Independence, and which is still going on. The tremendous effects of the industrial revolution on our problems as consumers will be brought out later. First let us consider what consumer problems were faced by Americans before and during the early phases of the industrial revolution.

Perhaps the most significant factor is the extent to which the early settlers produced for their own consumption. This had several important results. In the first place, goods were usually produced only when they were needed. There was no occasion to estimate how great the demand might be for most products, as there is today. By means of the crude, slow processes of manufacture of that time it was all that people could do to supply their most urgent immediate needs. Contrast this with the problem of the manufacturer of today, who is faced

with a loss if he produces more shoes, or automobiles, or breakfast food than the people will buy. He not only has to try to tell in advance how much can be sold, but he undertakes expensive advertising programs to help sell his product.

In the second place, as long as goods were produced in the home by those who were going to use them, or by craftsmen who were known individually by those who bought their products, the problem of recognizing the quality of the goods was almost nonexistent. This does not mean that goods were necessarily of better quality. Homespun woolen cloth may have been coarse, rough and uneven; it could not possibly approach the fine texture made possible by modern methods of manufacture. On the other hand, the homespun materials usually had many times the wearing qualities of goods that can be purchased today. But whatever the quality, it was known by the user. If goods had been made by himself or members of his family he could be sure that every effort had been made to produce the best possible. He could be almost as certain of the quality if the goods had been made by a local craftsman whom he knew, and whose business depended on his reputation for making excellent products.

But if the problem of knowing the quality of consumers' goods was much simpler than it is now, the problem of securing sufficient quantity was much greater. Unless the early settler could produce what he needed the prices which he had to pay were high because of the scarcity of goods. Many of the things which we now regard as necessities were nonexistent. Others were rare and expensive. A few raw materials were more plentiful, however. If men burned down houses in order to salvage the nails which had been used in their construction, it indicates not only that nails were scarce, but also that wood was plentiful. It would be difficult to find any place today where the wood used in building a house would not be of far greater value than the nails.

American pioneers were far less dependent than we are on trade with other communities. But it should not be assumed that each individual or family was completely self-sufficient. Many of their needs could be satisfied only by cooperation with their neighbors. And frequently people in areas even larger than immediate communities worked together to get the things they needed to consume.

When settlers moved ever farther and farther into the undeveloped West they seldom went alone. From the earliest periods of our history we find stories of the organization of groups of families to travel west by covered wagons. Once the new location had been reached the construction of the first houses was often a community affair. Informal cooperation among neighbors enabled them to clear their land and harvest their crops more easily than they could have done working alone. Thus the securing of consumer goods was dependent on group action.

There was an even greater degree of cooperation among early Americans in providing themselves with consumers' services. Recreation was a feature of community life which neighboring groups of people provided almost entirely for themselves. It was often combined with work. When one reads accounts of barn-raising, husking bees, and quilting parties it is hard to decide whether the work, or the fun which accompanied it, was uppermost in the minds of the participants.

The provision of educational services was accomplished less informally. Local governmental units very early assumed the obligation of providing public schools on an elementary level in all of the northern states. Secondary schools, colleges, and universities supported by the government followed. Education has been one consumers' service which Americans have never been content to have provided only to those who could pay. Even the earliest of the private elementary schools in the New England colonies were usually open to the children of those



who could not afford to help support the school. But education was too important to be left to private support alone. Therefore, so that all might have the benefit of schools, education has become a major activity of government.

There are many other services which in their nature are so important for the welfare of the public that they have become duties of government. Fire protection was sometimes provided in colonial cities by private cooperative organizations, supported by those individuals who paid to have their property protected. But it was soon found to be most impractical for a fire-fighting organization to put out fires only on the property of the members. A fire in the house of a nonmember could spread too easily, endangering the houses of members. Consequently fire-fighting became a tax-supported duty of the government.

Postal service has been provided by the federal government throughout our history. The scope of that service has, however, increased many times. We now have not only the house-to-house delivery of mails in the cities, but rural free delivery in the country as well. The Post Office Department provides us with means by which to send packages, and an opportunity to deposit money in postal savings accounts. Roads are built and maintained by the government. In villages and cities it is almost universal to find the government providing the water supply. In some municipalities the government supplies other goods and services, such as gas and electricity, to consumers.

Government has always been of some assistance in helping to solve the problems of consumers. In some cases, such as those we have just considered, this assistance has taken the form of the provision of goods and services by the government itself. In other cases it has taken the form of regulatory measures to protect consumers. The extent to which local and state governments and the federal government have offered such protection is the subject of a later chapter. In our present discussion it is

necessary only to note how little of such protection was needed in the early period of our history as compared with our needs today.

When a large proportion of the consumers' goods needed in everyday life was produced either in the home or by local craftsmen, protection against fraud or misrepresentation was relatively simple. In the case of home production the user of the goods had personal knowledge of their quality and construction. As for the goods that were purchased, the purchaser had a far better acquaintance with the methods of manufacture and the tests of quality than we have today. Men understood the characteristics of various kinds of wood and the methods of making furniture, while women knew the qualities of foods and fabrics. The lack of improved transportation meant that most of the goods purchased were produced in the immediate locality, and the purchaser could know the reputation of the producer. The very limited variety of goods offered for sale made it possible for the consumer to become familiar with them. The comparative simplicity of the processes of manufacture, and the relatively few stages in the production of the finished article, were other important factors which helped the average person to be an intelligent consumer.

The consumer, of course, had to be on his guard against adulteration and misrepresentation. But adulteration, or the substitution of cheaper and inferior materials, was less likely to occur, if only because of the lack of such substitute materials. Perhaps short weights and measures were the most common abuses, and against these abuses the government offered some protection. Over three hundred years ago in 1623 the assembly of the colony of Virginia met in "James Citty," now Jamestown, and considered the problem of false weights and measures. There were ten representatives present at that early legislative session. They represented districts, on both sides of the James River, composed of the early settlers in a

colony that was only a few years old. They passed a law providing that no weights and measures should be used unless they had been inspected and "sealed" by officers appointed for that purpose. The "seal" was an official stamp of approval placed on weights and measures that had been found accurate. By the time eight more years had passed, it had become apparent that the law of 1623 did not offer sufficient protection to consumers, for it contained no provision for the punishment of those who violated the law. A new law was passed which "ordayned and established, that whosoever shall use or cause to be used any unsealed barreles or bushels after the feast of St. John Baptist, next ensueing, shall forfeit 13s 4d and sett on the pillorye, and the measure and barrell deficient shall be broken or burnt."<sup>2</sup> As compared with some of the penalties imposed by our modern courts as punishments for violations of many of our laws designed to protect consumers, the penalties fixed by the early Virginia colonists in this law are really severe.

A uniform system of weights and measures was considered so important that the first article of our Constitution gives Congress the "power to fix the Standard of Weights and Measures." Up to now, 150 years later, Congress has never seen fit to exercise this power to the extent of passing a law adopting a system of standard weights and measures to be compulsory throughout the United States. The enforcement of uniform weights and measures has been left to state governments.

#### EFFECTS OF THE INDUSTRIAL REVOLUTION ON CONSUMERS

In contrasting our interests as consumers today with those of consumers in the early period of American history we find very significant differences. We have seen that a major distinguishing feature of the life of the pioneer and early settler was the extent to which the necessities of life were produced at

<sup>2</sup> *Consumers' Guide*, April 25, 1938, p. 12

home or in small local establishments. An equally important feature of modern life is the very limited amount of such production which is carried on either in the home or in the immediate locality. There are many important results of this change. A greater number of the things we need must be purchased. We may know the man from whom we buy them, but the chances are that we do not know who made them, how they were made, or even where they were manufactured. They may have been transported great distances, and the cost of that transportation must be added to the price we pay. In many cases we do not know, and have difficulty in discovering, of what materials the finished product has been manufactured. If products are not satisfactory we may not know whose fault it is, or how to obtain those of better quality.

The change from production of goods in the home and in the shop of the small craftsman by means of hand power to their production in factories by machine power is known as the industrial revolution. These changes in industry were indeed revolutionary in their nature, although they did not take place as abruptly as might be indicated by the meaning commonly given to the term "revolution."

The industrial revolution began in England during the eighteenth century with the invention of the spinning jenny, the power loom, and the steam engine. The first two inventions made it possible to spin thread and weave cloth much faster than by hand. As the use of machines for making cloth developed it became necessary to have large factories equipped with this new expensive machinery. No longer could a workman, or even a small group of average craftsmen, afford to own the necessary machines. Only a very rich man or a corporation could pay the costs of building a factory.

The use of power developed by steam engines contributed further to the centralization of work in factories. As long as a simple, inexpensive machine like the spinning wheel could

be run by hand, almost anyone could spin thread. But along with the more costly and elaborate machines came the use of steam to run the machines, and a large investment was required to build and operate the steam engines. The power from steam could be obtained wherever coal was available. The location of power-driven machinery was no longer limited to places where there was abundant water power.

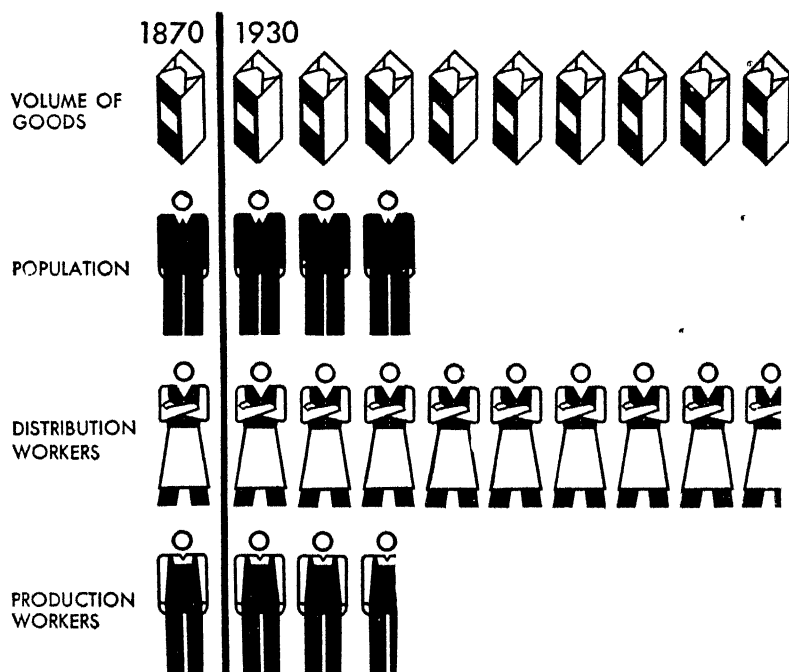
The industrial revolution has had tremendous effects upon every phase of our life, and especially on the welfare of workers in industry. But we are concerned here primarily with its effects on our interests as consumers. In the first place, it made mass production possible. Because more goods could be produced in less time, at lower cost, these goods became more plentiful. Articles which were once luxuries hard to obtain are now available to all. Our standard of living has been raised immeasurably as a result of the industrial revolution, and the average person today enjoys comforts and conveniences which were not available to even the wealthiest people before the industrial revolution.

Machines and power have made possible efficient, rapid transportation. Raw materials from all parts of the earth are used to manufacture goods which we use in everyday life, and those goods are available to us even though they may be manufactured thousands of miles away. This also contributes to increasing our standard of living, but, as we have already noted, it makes it much more difficult for us to know the quality of the things we buy.

With the industrial revolution came a rapid increase in specialization or division of labor. It is no longer usual for families to raise almost all of their own foodstuffs, make their own furniture and clothes, and build their own houses. Shoes are no longer made by the local shoemaker who formerly carried on all of the stages of their manufacture, from the preparation of the leather to the measuring and fitting of each individual

customer. They are produced in a factory in which the duty of an individual worker may be the performance of one small task in the manufacture of thousands of shoes, or the operation

## GROWTH IN THE UNITED STATES



The 1930 symbols show the number of times the totals in each case have increased since 1870  
 PICTOGRAPH CORPORATION, FOR PUBLIC AFFAIRS COMMITTEE, INC

*From 59¢ OF YOUR DOLLAR*

From 1870 to 1930 volume of goods and workers distributing it have increased more rapidly than population and production workers

of one out of scores of machines used in the process. As a result of this specialization no one person is responsible for the complete production of one article. Workers are therefore deprived of the personal satisfaction of making something of such quality that they can take pride in their product.

Furthermore, to the individual specialization results in emphasis on one kind of work, which ideally might mean that each person does the work for which he is best suited. But for almost all of his needs he is dependent on the work of others, and he must earn enough from the one kind of work which he performs to pay for the satisfaction of those needs. Even the modern farmer must depend on purchasing much of his food. He may raise the chickens which he eats for Sunday dinner, but he probably buys his butter and his sausages, and he almost certainly buys his flour. This dependence on others which is a necessary part of our modern system of division of labor means that the amount and variety of goods purchased is constantly increasing, and therefore the importance of a cash income with which to buy the necessities of life increases.

Interdependence has become so great, not only among groups of people of different occupations, but among all parts of the world, that we as consumers are affected by economic and political conditions which may seem to us remote and of little concern. A war in Europe causes some of our prices to rise, while on the other hand a refusal of American consumers to buy silk may affect the welfare and economic stability of Japan. A drought in the corn-belt or a disease affecting cotton plants increases the cost of our food and clothing.

Another pronounced result of the industrial revolution which affects our interests as consumers has been the concentration of population in large cities, where people produce even less for their own use than they do in rural areas, and are even more dependent on others for the services which they require. Such problems as those of health and of adequate housing have increased steadily along with the growth of cities.

The way in which the industrial revolution came about in America was somewhat different from its history in Europe. This was because of the fact that many industries came to the new world so late that they were able to operate on the modern

plan from the beginning. In England and other parts of western Europe the factory system did not follow directly upon the heels of a system of home production. Between these stages there existed for a long period of time a method of production known as the guild system. Under this arrangement workers engaged in each important industry were organized into guilds through which new workers were trained and standards of quality workmanship were maintained. Regulations prevented persons outside any particular guild from engaging in the work of that guild. Thus we have one feature of the guild system which worked to the advantage of the consumer and one which worked to his disadvantage. On the whole the guilds maintained high standards of quality. But by restricting the number of workers who could produce various kinds of goods or engage in the most important skilled occupations they deprived the consumer of the advantages of competition.

By the time parts of the United States had become sufficiently settled for the development of industries, the factory system was well under way in England. The British government, hoping to prevent other countries from gaining knowledge of the new inventions, had passed laws prohibiting the export of any models or plans of the machines used. But Americans began experimenting on their own, and, within ten years after the end of the Revolutionary War, an efficient spinning mill had been established in Rhode Island. The machinery in the mill had been made with the help of Samuel Slater, an Englishman who had worked in one of the most famous mills of that day in England. He built from memory machines similar to the ones he had known before he had come to America.

In spite of this early beginning, the full effects of the industrial revolution were not felt in this country for a long time. Although industries developed rapidly in New England, the real industrialization of most of the United States did not begin until after 1860. Since that time, the United States has



become an industrial nation. The industrial revolution has had the same effect here that it has had in other industrial areas. Farms as well as factories are increasingly dependent on machines, and even agriculture is becoming specialized to a high degree.

It has been stated previously that the industrial revolution is still going on. There are some industries which have been transferred from the home to the factory only in part. A good example of one of these is the laundry industry, some of which is carried on in large establishments and some of which is still done in the home. The baking of bread and pastry is another example. Almost all cloth is now made by machinery, but the making of clothing still exemplifies several different kinds of production. Wearing apparel may be made almost entirely by machinery in a factory, it may be fashioned by a skilled craftsman in a tailor shop, or it may be made at home. It is not hard to see that in many such fields the consumer has a better chance to control the price and quality of the goods he wants. Unless bread which can be purchased at the bakery is of good quality and sold at a reasonable price, it is possible for the housewife to bake her own. But if an electric light bulb burns out after only a few hours' service, or if a pair of shoes wears out too soon, she must find some other means of looking out for her interests.

Any attempt to explain why we in America have only recently become aware of our needs as consumers must take into account the comparatively recent change from an expanding, primarily agricultural society, constantly moving westward, to a more settled society whose frontier had ended. As long as there was free land in the West, conditions in the cities and the factories could not become too bad, for if they did the laborers could move into newer territory. As long as there were new lands to be developed, new mines to be dug, new forests to be cut, and ever-expanding markets for the products of the

lands, mines, and forests, people tended to be concerned most of all with their problems as producers. They aimed chiefly at producing more in order to increase their incomes. With these larger incomes which resulted from their work as producers they could buy their needs as consumers. In expanding America they liked to think that any boy might become President, or a millionaire. It is natural that such an emphasis on the chances for achieving wealth and success by productive effort should overshadow the chief aim from the consumer point of view—that of satisfying needs as well as possible at the least possible cost. Small savings are relatively unimportant to one who has hopes and dreams of large profits.

#### THE CONSUMER IN MODERN ECONOMIC SOCIETY

The methods of producing and distributing goods in our modern economic society have become extremely complicated, yet the fundamental reason for all the processes of production and marketing is to meet the needs of the consumer. Probably the best measure of the degree of success of any economic system is the extent to which it meets those needs of the consumer satisfactorily, just as the most realistic measure of the prosperity of a country is the amount of consumer goods and services available to the people at a cost low enough for them to obtain a plentiful supply. The potential power of consumers to affect all economic life is great. But because consumers as a whole have not been fully aware of either their needs or their potential power, their influence has not been felt in any very positive or definite manner in most fields.

In spite of the failure of consumers to make their interests known until recently, the influence of consumer tastes and habits in buying has been very important. Suppose, for example, a considerable number of consumers prefer to own automobiles instead of owning their own homes. Many of our most important industries are affected by that preference on

the part of consumers. The lumber industries, the building industry, the manufacturers of household equipment and plumbing supplies all are losers, while the automobile factories, the rubber industry, the petroleum industry and garages and service stations gain. Another illustration occurred a few years ago when college students in many parts of the country started the habit of going about bare-headed, a practice which caused great concern to those who manufactured and sold men's hats.

Suppose consumers fail to buy as much as usual, either because of lower incomes or because they believe that prices may go down. All industry is affected, surpluses pile up, and more consumers are thrown out of work. Thus in a depression there is created a vicious circle, with people losing employment because consumers do not buy, and consumers being able to buy even less because more of them are out of work.

The inability of consumers to buy, and the choices which consumers make among the things they buy, have widespread results. But what about the influence of consumers on those factors of price and quality which are so important to their welfare? At present that influence is largely negative. If the quality of any product is too low, consumers will refuse to buy and thus force just enough increase in quality to make the product acceptable. Likewise, if the price is too high, consumers will refuse to buy until the price is lowered. The trouble with this kind of consumer control is that it works only in extreme cases. Too frequently the consumer cannot tell whether the quality of the goods he buys is really good. Nor can he often tell whether the price is too high. The consumer, it is true, can "vote with his dollars" by spending them for what he believes are good values, but if he is really to improve his condition by means of that "vote" he must be able to use it intelligently. In other words, in order that the consumer may use his great potential power for his own advantage he must

know not only what his problems are but also what factors are important in their solution.

To what extent do consumers use their everyday purchasing power wisely? How many of them get the best values that are available? These questions cannot be answered specifically, but nearly everyone agrees that most consumers are inefficient in making their purchases. Some of this inefficiency results from carelessness and lack of planning, but a great deal of it is due to the fact that even the most alert consumer cannot become a highly competent purchaser of all of the products needed. The average consumer who must buy food and clothing and other necessities must be a buyer of so many varieties of products that it would be impossible to become an expert in buying all of them. Most of the products are purchased in such small quantities and involve such comparatively small amounts of money that the expenditure of much time and effort in investigating or testing might not be worth while. If consumers could cooperate in having such investigations carried out and make their findings available to all, the results would very likely be worth a great deal more than they cost.

In ordinary buying, the untrained and often uninformed consumer meets with a well-trained seller who earns his living by his ability to sell to the consumer. It is easy to see that they do not meet on an equal footing. This does not necessarily mean that the seller is trying to mislead the consumer, for his success depends not only on his ability to sell his product now but also on his ability to satisfy his customer so that his sales will continue and increase. It does mean that the seller has an advantage, and has probably benefited from many lessons from experts as to how to sell his particular product.

The attempt made not long ago to increase the sales of a certain kind of soft drink is a very simple illustration of methods used to speed up purchases. It had been the habit of the clerks to ask customers who came to the soda fountain

whether they wanted a large or small glass. The answers varied, the customers as often as not asking for the smaller size. The clerks were then instructed not to say "Small or large glass?" but rather to ask, "Large glass?" It was found that most of the customers simply said "Yes," and the amount of sales was substantially increased.

Those interested in selling their product very seldom carry on all their efforts as individuals, or even as single companies. Trade associations, interested in increasing the sales of all brands of a certain commodity, are organized by business men with common interests. There are more than a thousand such associations in the United States. They deal with all sorts of problems common to their members, sometimes attempting to regulate competition between dealers in their product, sometimes trying to prevent price cutting.

When sellers are well organized, and are carefully watching to see that nothing is done to harm their interests, they have a distinct advantage over consumers. During a period of especially hot weather in the summer of 1931 there was a radio broadcast by the United States Public Health Service in which people were advised to eat less meat during the extreme heat wave. This broadcast caused so many protests from those interested in the sale of meat that orders were given the Health Service not to conduct any future broadcasts unless they were first submitted to the secretary of the department. Until consumers are equally well organized they cannot compete with sellers in effectively expressing their interests.

If consumers are at a disadvantage because they have neglected to exercise for their own advantage the power which they could have, there are now signs of a consumer awakening, which has sometimes even been termed a "consumer movement." Evidences of this awakening are found in the increase in the number of courses on consumer education in the schools and colleges, the large number of books published on the sub-

ject of consumer needs and interests, greater attention given to consumers in governmental activities and increased discussion of consumer problems in periodicals. A survey made in 1935 showed that the number of articles on consumers and economics of consumption in American magazines during a period of twelve months in 1933 to 1934 was eight times as great as the number which appeared on those subjects in the twenty years between 1900 and 1920. And since 1934 the number of such articles has become still larger.<sup>3</sup> Manufacturers are giving increased attention to consumer demands, if not to consumer needs. Studies have been made by producers to determine just what shade of yellow in lemons appeals most to consumers, just which size and shape of cartons and packages are favored most, and just what reasons consumers have for buying one brand instead of another. Housewives in any large city may be called to the telephone and asked what brand of soda crackers they buy and what size packages they prefer, or whether they buy dark bread more often than white. A manufacturer of hand lotion proclaims over the radio that before a new product was placed on the market it was tested by hundreds of consumers in order that the manufacturer might find out what consistency was most desirable in a hand cream. The interest of producers in finding out what consumers want is in response to activities undertaken by consumers themselves.

Several reasons can be given for this new interest of consumers in their own welfare. Consumers' needs became more pressing, and the depression made the problem of satisfying those needs more urgent. Incomes decreased faster than prices went down, and people found themselves trying to keep up their standards of living on less money. They tried to stretch their dollars as far as possible, and began to try to find out how they could get the most for their money. In many cases

<sup>3</sup> *Consumers' Guide*, Aug 5, 1935, p 2

products of inferior quality were offered for sale at lower prices, and consumers who had bought such products became dissatisfied. Consumers who were interested in having lower prices for food discovered that prices paid to the farmers for the foodstuffs they sold were too low, and that marketing costs were taking more and more of the consumer's dollar. Then they began to wonder if all of these costs were necessary. Government adopted measures and set up agencies to help hard-hit producers, and because consumers feared that they might suffer as a result of these measures the government also created agencies whose duty it was to look after consumer interests.

In the United States today we as consumers find ourselves in a situation that is serious and at the same time hopeful. It is serious because we have not yet fully learned how to turn our country's wealth of resources into the more important wealth represented by a higher standard of living for a larger proportion of our people. It is hopeful because we are no longer indifferent to our problems, but are trying to work out their solution in a democratic way.

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## SUGGESTED ACTIVITIES

1. Read and report on a book from your library which describes life in colonial days. You may choose historical descriptions, biographies, or fiction. In your report show in how many ways consumer problems at that time differ from those today.
2. Compare the recreation and entertainment enjoyed in earlier generations with those of today. Consider how much recreation is bought, and to what extent people produce their own entertainment. What activities, such as hunting and fishing, are recreation now that were formerly necessary work? What do these changes have to do with our interests as consumers?
3. Look up and report on an article on the medieval guilds.

(See a good history, or articles in *Compton's*, the *World Book*, the *Encyclopedia of the Social Sciences*.) How were problems of consumers different then from our problems today? Explain why.

4. Read an article on the industrial revolution in a history or one of the encyclopedias mentioned under 3. List as many effects of the industrial revolution as you can. Show how they affect consumers.

5. Select some common object. List the raw materials used in its production; trace its route from the mine, farm, or forest to your home; and try to estimate how many people have had something to do with the process by which it reached the ultimate consumer.

6. It is said that in each system of production which preceded the factory system the consumer started the process. What does this statement mean?

7. Conduct a debate on the following subject: "Resolved, that consumers now control the kind, price, and quality of the products they buy."

8. Debate the subject: "Resolved, that consumers have the potential power to control the kind, price, and quality of the products they buy."





a rather forbidding meaning. Yet a budget is simply a fairly definite plan for the use of an estimated income over a certain period of time. Your allowance may be 15 cents a day, and if you plan to spend 5 cents each day for candy or ice cream, to save 5 cents to pay for a movie over the week-end, and to save 5 cents for a longer period of time to purchase a pair of skates you are planning your personal finances by means of a budget. Suppose that, in addition to your allowance, your past experience enables you to estimate that you can earn an average of 25 cents each week-end by running errands, mowing lawns, shoveling snow, or performing other tasks. In that case your budget would be planned on the basis of an estimated income of \$1.45 a week.

A budget, therefore, need not be complicated. But it is more than a mere planning of expenses. It involves a plan for spending which should be based on a wise use of the available money. It requires the making of choices among many possible purchases. If, for example, a boy who was following the budget illustrated above had spent 10 cents a day for candy he would have had to give up either the movie or the pair of skates. If, on the other hand, he would rather see two movies a week and go without his candy or ice cream, he could accomplish that only by changing his budget plan. If he were eager to have his new pair of skates by the time the ice was firm enough for skating he would figure out how long it would take him, at the rate of 5 cents a day, to save enough to buy a pair, and he might decide to give up some of his other purchases in order to be able to get his skates at the beginning of the season.

It is easy to see that a budget is pretty much a personal matter. Each person as well as each family will prefer his own plan. There are two rules, however, that should be followed in every budget. First, provision must be made for the necessities of life—food, clothing, and shelter—in every family budget. And second, all budgets should contain some provision for

savings to take care of misfortunes, illness or emergency, and to make possible in the future the purchase of something greatly desirable but too costly to be obtained without previous planning.

There are many books and articles which explain methods of making budgets for individuals and families, giving useful suggestions as to the proportions of money that should be allocated to food, clothing, education, luxuries and savings. The important point for us to recognize here is the value of a budget in helping us to be intelligent consumers. As a plan for using money a budget helps an individual to live within his income, to direct his expenditures so that he can have what he needs most, and to make consistent savings.

The making of a budget is really an attempt by an individual to make rules for himself to follow in spending his own money. It has already been stated that these rules must vary with different persons, because each individual has his own needs and desires which may be quite different from those of his neighbor. It is an ideal of our democratic society that each of us should be free to choose the goods and services that he wants to consume, so long as his choice is not harmful to others. Usually we are free to choose even those things which may be harmful to ourselves as long as we are the only ones whose interests will suffer. Most Americans believe that this freedom of choice, even though it involves the freedom to make mistakes, is a far greater contribution to our happiness and welfare than any system whereby our choices would be made for us and enforced upon us, however wise those choices might be. This ideal is an important part of democratic philosophy. Like all of the principles of democracy it not only asserts a right which should belong to all individuals, but it at the same time imposes a responsibility on those individuals to exercise that right intelligently.

Therefore, while each consumer is free to choose how he

shall spend his money and to make his own rules for spending, if he is to make the best use of that freedom he will try to learn certain important principles on which to base those rules. He will understand the importance of certain questions which he should be able to answer with regard to all of his purchases.

The first question to be asked is probably "Can I afford it?" Everyone makes use of this question to a limited extent. The boy with his allowance of 15 cents a day feels in his pocket to see if he has enough money to pay for the bar of candy he wants. But "Can I afford it?" means considerably more than "Do I have enough money to pay for it?" It involves the consideration of whether some other goods are more necessary or more desirable, and whether the expenditure for one item would prevent the purchase of something else which would give greater satisfaction.

A part of the decision as to whether any purchase can be afforded is based on whether it can be paid for in cash or whether the purchaser will have to go into debt in order to make the purchase. No one can make a wise decision on whether to go into debt in order to buy something unless he considers certain factors such as how much the interest charges will be, how long it will take to repay the debt, how easily payments can be made, and whether its repayment will mean giving up other things which might be more desirable than the goods for which the money was borrowed.

The purpose for which money is borrowed is an important factor. Usually it is considered unwise to go into debt for those things which are not necessary or which may be termed luxuries. A young man at work on his first job, located within walking distance of his home, might be foolish to go into debt to buy a car which he would use only for pleasure. But another young man with a job in which he needed a car might be wise in purchasing one even if he had to borrow money to do so. The money borrowed by a busy housewife to buy an electric

washing machine might be a wise transaction, whereas the same amount of money borrowed in order to purchase a new sofa in the latest style might be unwise.

Sometimes the nature of the question is reversed and becomes "Can I afford not to buy it?" Suppose you are in need of dental care, yet you know that paying a dentist's bill will mean that you will have to postpone getting something else you had planned on. A decision to postpone going to the dentist until you have more available money, or until a bad toothache forces you to go, would be not only foolish but harmful. Postponing dental care means a larger bill, and probably permanent damage. We seldom can afford to save money which should be spent for medical or dental care. Frequently young people must face the question of whether it is wise to spend money for further education which will prepare them for better positions and better living. This is a problem in which it is especially necessary to consider whether one can afford not to spend the needed money.

Budgeting is especially concerned with planning what goods and services and how much of them should be purchased. After that plan has been made, the consumer still has important choices to make. Suppose that the budget of a family of five allows \$10.00 a month for purposes of recreation. How should that amount be used? One family may decide to use \$2.00 a week for theater tickets, another will save to buy a radio because it expects to get greater satisfaction from the recreation of listening to radio programs than it could get from a movie once a week. One high school student may save money for two weeks at camp, hoping for greater benefit from that than from spending the same amount throughout the year. A girl may get greater satisfaction from a new hat than from half a dozen movies. No one can make any rules which apply to all other people, except perhaps the rule that wise spending requires each individual to plan his expenditures according to the way

in which he himself will get the greatest amount of the things he needs and wants.

Consumers all have to decide what things to buy and pay for and what things to do for themselves. One man may decide to save money by washing his own car or repairing his own house or furniture. Another man may just as wisely decide to pay for having that work done. He may be so busy that to wash his car would mean neglecting some other important task, or he may be so awkward at repairing furniture that he could get much better value by paying an expert. One girl may find that it is wise for her to have her hair waved, but that she can economize by doing her manicuring for herself. Another girl may save money, and at the same time develop her own talent, by making herself a sports dress, while her classmate finds that by spending the evenings necessary to make a dress in taking care of a neighbor's children she has not only earned enough to buy a dress but has been able to get in several hours of uninterrupted study or reading.

All of these procedures of planning and of making wise choices among the many things which consumers want are problems which you can solve for yourself if you understand the factors which should be considered in making up your mind. But after these plans have been made and these choices are determined there still remains the important task of securing the goods or services which you have decided to buy. There is first of all the problem of making sure that the quality of what you buy is good. This is a part of the problem which you can rarely solve entirely by yourself. However, with some products an increased knowledge will help you to make a good selection. Suppose you are purchasing a pair of shoes. You are competent to judge how they look. You can usually tell by trying them on how they fit, although you may not always be able to tell by taking a few steps how they will feel after you have walked several miles. But you cannot know

with any degree of certainty how well they will wear. The insole may be made of leather, or it may be made of pressed paper or other substitutes, but you would have difficulty in telling which had been used. The wearing quality of the leather depends on how long and at what temperature the wet leather, which has been shaped over wooden forms, has been dried, yet you cannot tell whether the manufacturer has rushed through the drying process at too great a speed and has thereby sacrificed quality. You cannot even be sure that because you have found one product of a certain manufacturer to be of good quality all of his other products are equally good. An expert shoe manufacturer has been quoted as saying that he was unable to tell the difference, within \$2.00, between a \$4.00 and an \$8.00 pair of shoes without tearing them to pieces.<sup>1</sup>

The problem of securing quality goods is the subject of the next chapter. It is mentioned here only as an indication of one aspect of our problem that cannot be solved by each individual consumer. It is true that the more we know about the goods and services we use the more we can tell about the quality which we are getting. But the variety of products which we buy is so great that it is impossible to know much about many of them. The idea is well expressed by one economist who writes, "We have only 24 hours a day; and we cannot spend the whole 24 weighing potatoes, burning silk, experimenting with coffee-grinders and feeding guinea pigs."<sup>2</sup> Nor would we be permitted, even if we could gain the knowledge of the expert shoe manufacturer, to enter a shoe store and tear apart the merchandise we were examining in order to determine its quality.

Equally important with securing good quality is the problem of paying a fair price. Here again the information which we

<sup>1</sup> Wyand, Chas S, *Economics of Consumption*, N Y, 1938, p 291

<sup>2</sup> Hoyt, Elisabeth E, *Consumers in Our Society*, N Y, 1938, p 79

as individuals can learn is helpful in judging whether the price asked for any commodity is fair. Careful study and comparison will often show whether an article in a lower price range is as good as one at a higher price level. But in this field also it is difficult to learn about all the things we must buy. It is possible, for example, if sometimes difficult, for us to find out whether a de luxe model of an automobile differs from the standard model only in that it has an extra windshield wiper, an extra tail light, and several extra strips of chromium trimming. We may also find out that the extras, minus the chromium, can probably be installed on the standard model for about \$10.00. If the de luxe model is priced at \$60.00 more than the standard we can then decide whether the chromium trim is worth \$50.00, or whether we might get more enjoyment out of spending that extra money for a radio installed in the standard model.

But if this type of investigation of value received for money spent is relatively easy, how would you go about finding out whether the total cost of the car is a fair price? How might you determine whether the price asked for a can of tooth powder is too high in comparison with the cost of its contents? All of these things could be discovered, but the cost of discovering them would be too great in time and money for the average consumer to undertake.

Closely allied to the problems of securing good quality and fair prices is that of avoiding various kinds of deceit and fraud to which the consumer is exposed. Some of the common methods of deceit have good legal standing. There is no law against making a container seem larger than it is as long as the exact contents of the container are printed on the outside.<sup>3</sup> Yet only a small number of consumers look for the printed

<sup>3</sup> We are referring here to packaging, which, by means of design, looks large. There are laws limiting the amount of empty space permissible at the top of a package which is actually too large for its contents.



number of ounces on a package, while almost all of them are affected by how large the package looks. So important is the appearance of the package that trade magazines carry advertisements urging manufacturers to make use of the services of commercial artists who design packages to look larger than they are. Boxes of strawberries have bottoms that are placed an inch higher than the base of the box. Bottles have thick sides and even thicker bottoms because the glass is cheaper than the contents and the bottles look larger than they would if the glass were of only ordinary thickness. There is no legal deceit in these practices, because the consumer who is on his toes can always read the amount of the net contents of the container.

There are other fields in which the consumer must beware of outright fraud. In the most obvious of these fields the people have already recognized that they need greater protection than each individual can provide for himself, and they have secured laws which make it the duty of the government to stop certain practices. Food and drug laws try to prevent misbranding and adulteration of food products and medicines. Other laws try to halt the sale of fraudulent securities to investors. Still other laws limit the interest charges which can be made to consumers who borrow money. These too are subjects of later chapters. Here they are mentioned to illustrate ways in which the American people have recognized that there must be some organized protection of their interests as consumers that will be more effective than anything that they can do as individuals acting separately in their own interests.

Early in this book we considered the effect of protective tariff on consumers. The tariff is perhaps one of the most far-reaching single factors we have affecting the prices we pay for goods of the kind on which the tariff is levied. Our tariff policy is the result of group action carried out by organized government. If consumers want their interests to be given greater considera-

tion in the formation of tariff policy they must also resort to group action to bring that about.

A review of the various kinds of problems which consumers face and the factors which help in their solution cannot help but bring out the fact that the most important problems cannot be solved by individuals acting alone. They are not primarily individual problems but are social problems, that is, they affect society as a whole and involve relationships among many different groups of people. And because they are social problems they can be solved only by people acting together.

There are many ways in which people act together to solve their problems. Perhaps the simplest way is the voluntary cooperation of a group of neighbors to do together what they could not do separately. This was illustrated by the way the earliest settlers in America built their churches, and by the cooperation of early pioneers in helping each other to construct buildings, clear land, plant and harvest crops, and to provide protection. It is illustrated in modern life by numerous clubs and associations of people having some interests in common for which they all work. Sportsmen's clubs and conservation associations are formed to preserve and protect game and wild life. Such voluntary organizations have always had a part in American democracy.

As the years have progressed we have tended to look more and more to the government to provide the means by which we work together to protect our interests. This is a natural development because our problems are becoming so widespread and complicated that often only an institution which is large enough to include all the people can be of much use. It should be noted that consumers were very late in looking to the government as a means of group action to protect their interests, except perhaps so far as their interests in education were concerned. The first to seek and get government protection and aid were producers' groups, such as the manufacturers

who got high protective tariffs and the railroads that were subsidized. Organizations of producers have always been active in using the government to protect their interests.

Now that we are becoming more and more aware of our interests as consumers we find people making use of many methods of group action. Increasing protection and assistance are being asked from government. Private organizations are being formed to further consumer interests. Businesses are recognizing the need for listening to consumer demands, and are acting together to do something about it. Voluntary organizations of consumers are engaging in many kinds of group action to supply their needs for information. Consumers themselves are carrying on business enterprises through the organization of cooperatives. All of these methods are in accord with the democratic American way of seeking to improve conditions. There is frequent disagreement over which method may be the best. Some people oppose too much action on the part of government, fearing that government protection might go too far and become an undesirable restriction on free enterprise. Others believe that there is little danger of too much government control, arguing that our government has not stepped into any field to control or restrict unless the welfare of the people required such action. Still others say that people should first try to solve their own problems by voluntary group action, which, wherever successful, will make it unnecessary for the government to step in.

There are many arguments for and against these points of view. To maintain our democracy it is essential that we should have the right to differ in our opinions, and to express those differences not only by argument for the methods we believe in but also by trying them out. But it is equally essential that we form our opinions on the basis of a knowledge of the facts and an understanding of the issues involved. If each consumer is to take the part he should take in making it possi-





item is required by law to appear on all canned goods. But even this did not tell them the net weight of the actual fruits or vegetables which were included in the can. The amount of juice, sugar or water added could vary greatly, and this variation need not be indicated on the label. Yet the housewife planning a meal might find that a can of peaches containing eight halves would be sufficient for her needs, while she would have to buy two cans if each contained only five halves but more juice.

A further study of the 10,500 cans showed that the terms used in labeling varied widely in their usefulness. Some stated that the can contained "from six to eight halves" or gave other information as to the size or condition of the contents. Other statements on the labels were not only useless but ridiculous. One label described peas as "Smooth and sweet as big drops of honey," and another read "an abundance of sunshine, pure radium charged air and cool nights give these beans their splendid color and flavor." Many of them carried such meaningless descriptive terms as "Extra Wisconsin," "English Style," and "Triple Extra." All of them carried brand names, which are the registered or trade-marked names given by manufacturers to their products. These brand names sometimes merely distinguish the product being sold by a particular manufacturer. Occasionally they give some information as to the nature of the contents. Sometimes they do neither. A few of the absurd brand names found by the Iowa consumers were: "Tiger," "King Cole," "Devotion," "Old Mother Hubbard," "Pride of King George," "Barefoot Boy," and "Blue Hen's Chickens."<sup>1</sup>

Most canned goods sold at present are not labeled according to quality grades. Although grades of A, B, and C have been set up for a number of fruits and vegetables, their use is entirely voluntary. There is only one kind of quality which must

<sup>1</sup> Information on this survey taken from mimeographed copy of address made by D E Montgomery, Consumers Counsel, Agricultural Adjustment Administration, before a meeting of the American Marketing Society, Atlantic City, New Jersey, on Nov 27, 1936

be indicated on the label, and that is the poorest quality permissible. If canned products are below standard, but are still pure and wholesome food, untainted and unadulterated, they must be labeled as sub-standard. According to an amendment to the Pure Food and Drug Act, passed in 1930, sub-standard canned fruits must be labeled "Below U. S. Standard. Good food—Not high grade"; and sub-standard canned vegetables must be described as "Below U. S. Standard. Low quality but not illegal." Since the passage of the Pure Food and Drug Act in 1906 the federal government has protected consumers against food that may contain poisonous substances and decayed or decomposed matter, provided that food is an article of interstate commerce.

In the absence of labels giving information on the grade of any product, a general tendency among consumers is to assume that quality and price have a definite relationship. Some housewives who can afford it make a practice of always buying the most expensive cans because they want to serve only the best. Others buy medium or low priced cans for ordinary use, but more expensive ones for special occasions. With this practice in mind, a study was made to determine whether the better qualities of canned fruits and vegetables were usually priced higher than others. Several people trained in the use of the United States Department of Agriculture grading system graded 832 cans of corn, peaches, tomatoes, pears, peas, and beans. They classed them in four grades, A, B, C, and sub-standard, and then listed these grades according to the price charged per pound of net weight. The results were surprising.

Of the 68 cans of peas tested, ranging in price from 8 cents to 25 cents per pound, they found only four of Grade A quality. These four cost 10 cents, 11 cents, 14 cents, and 15 cents a pound, respectively. They found 27 cans of Grade B quality, ranging in price from 10 cents to 20 cents. Thus not one of the Grade B cans cost less than the lowest priced Grade A can. They found 28 cans of Grade C, ranging in price from

9 cents to 25 cents. Only 6 of these were lower in price than one of the Grade A cans, while 20 of them cost more. Even more important, 2 of these Grade C cans were the most expensive of any of the 68. Nine of the cans were sub-standard. Three of these were priced at 8 cents, 4 others cost the same as the cheapest Grade A can, and 2 of them cost more.

Thus price was found to be no help in determining quality. A housewife who might have bought the most expensive can for 25 cents, hoping to have an especially good serving of peas, would have bought Grade C, the lowest quality permitted under government standards. One having very little money to spend might possibly have bought a sub-standard can, the cheapest of all the cans, but not available in all stores, for 8 cents. If she had, she would have served peas which had some food value but no taste appeal. But, had she been able to know the facts she could have got the best quality, so good that only 4 out of 68 rated that high, for only 10 cents.<sup>2</sup>

Many other examples could be given, enough to make up a book in themselves. But one is sufficient to illustrate the problem as it relates to canned foods. What can be done to make it possible for consumers to know what is in a can? Obviously, it should be done by labels, but what kind of labels? In general, there are two kinds, referred to as grade labels and descriptive labels. Grade labels are simply stated terms of A, B, C or 1, 2, 3—terms which all consumers understand. Descriptive labels make use of adjectives such as sweet, juicy, large, small, extra, triple-extra, sun-ripened, and so on, but do not grade the products. Olives, for example, may be described as "large," "extra large," "mammoth," "giant," "jumbo," "colossal," and even "super-colossal," and none of these mean much to the consumer unless the olives are packed in a glass jar so they can be seen. Many descriptive labels are of more value, such as "pure juice of vine ripened tomatoes, lightly salted,

<sup>2</sup> H. A. Mereness, *The Consumer*, Consumers' Division, N. R. A., Vol. 1, No. 2, 1935, Nov. 1, p. 2



prepared so as to retain the deliciousness of the fresh tomato." But even this information, while honestly describing the contents of the can, fails to give the buyer a basis on which to compare its quality with that of other brands

United States government agencies, such as those in the Department of Agriculture, and many consumer groups, believe that grade labeling is likely to be most useful. Consumers know what A, B, and C stand for, although they usually do not have time to learn particular specifications and descriptive terms for a large number of foods. The use of grades may be improved by the use of descriptive terms on the same label. An excellent example of the use of the two to describe completely the contents of a can is illustrated by the following, appearing on the label on a can of Co-op apple sauce

## CO-OP FOOD FACTS

This lot of which this can is a part has been sampled and tested by accepted methods and found to be

### GRADE A (FANCY) APPLE SAUCE

This means that samples met the following standards.

- 1 Must possess a typical, uniform bright color throughout the can
- 2 Heavy in consistency
- 3 Must possess an evenly divided granular finish.
- 4 Practically free from defects such as particles of seeds, peel, etc.
- 5 Must have prominent and distinct characteristic apple flavor
- 6 Score not less than 90 points by official U S Standards.

### GENERAL DESCRIPTION

Type	Sweetened
Size of Can	No 2
Contents	1 lb 4 oz.
Servings	4 to 5
Cups	Approx 2¼

PACKED FOR  
NATIONAL CO-OPERATIVES · INC.  
CHICAGO ILLINOIS  
MEMBERS IN MINNEAPOLIS SUPERIOR NORTH  
KANSAS CITY CHICAGO NEW YORK CITY  
T M REG 1939

The value of grading is dependent upon the accuracy and fairness with which standards for each product are set up, and upon the methods used to assign the various grades to the brands graded. Government grades, which are official but not compulsory, are set up by groups of experts after consultation with those concerned with the product under consideration. Producers, canners, and wholesale buyers of a certain canned food indicate the qualities which they think should apply to that food. The ripeness of the fruit or vegetable canned, its color, freedom from defects such as seeds or pieces of skin, the use of added juice, whether the pieces are broken or whole, and many other factors are considered. These items are different for each product. Each of the factors determined is then given a certain number of points, all of which total one hundred. Agreement is then reached on the total score which a certain product must attain in order to be graded A, B, or C. A score, for example, of 90 or above may entitle the product to an A rating, or 75 to 89 a B rating, and from 60 to 74 a C rating. Sometimes other factors than total score are considered. When canned tomatoes are graded, one factor to which 25 points are allotted is the percentage of whole or practically whole tomatoes in the can. Tomatoes that score less than 22 points on this factor cannot be graded A, no matter what the total score.

After these standards are set up, canners who want their products graded, large retailers, and more especially wholesale dealers buying from canning factories, may send samples of the foods in question to the United States Department of Agriculture to be graded. A fee is charged which covers the cost of the service. Anyone can have government experts grade any food for which standards have been set by paying the fee required to cover the cost. Buyers of goods in large quantities can afford to do that. The consumer, buying only a few cans, cannot be helped in this way. For that reason many believe that

grades should be a part of all labels. Such grading is compulsory in Canada for large numbers of food products.

Government grades were not originally set up for the benefit of consumers, but for the benefit of commercial buyers who must make sure that they receive the quality contracted and paid for. Although many dealers seem to think that the consumer is not interested in knowing whether he gets Grade A, B, or C, they know that such standards are necessary for their own business.

Consumers have always wanted good quality in buying food. Now they are beginning to advocate better, more honest, and more complete information on the labels of the goods they buy. Most agencies that are concerned primarily with the interests of consumers advocate grade-labeling, but there are other groups who oppose this use of the grading system. There are several reasons for this opposition. Some believe that quality labeling might reduce the amount of some kinds of products sold. As we shall see in a later chapter, at present the volume sold of a particular brand depends to a large degree on the extent and effectiveness of advertising, or on the reputation and good will that is enjoyed by the manufacturer. If a system of labeling were required by which products were graded as to quality, and if consumers made use of the information on the labels, then the kind of competition between manufacturers would change. Advertising of brand names might become of less importance, and competition for quality would be more prevalent. Consumers would not be misled into buying the most expensive cans of peas in the hope that they were getting the best quality. The inferior products would certainly not sell as rapidly if their quality were known.

Thus we can see reasons for opposition on the part of several groups. Agencies whose business it is to furnish advertising fear that their services might become less important, and that their business would decline as a result. Sellers of inferior

products fear that, if complete knowledge of quality were available to consumers, their products could not be sold at any but a very low price. And sellers of very good products, whose reputations have been built up over many years through the satisfaction they have given customers and the great sums of money they have spent on advertising, fear that their sales might suffer if they had to compete with equally good but less well-known products. Such products, under a system of grade labeling, could be recognized by the consumer as being just as high grade as the advertised brand, and it is possible that the latter might lose in volume, or be forced to lower prices.

The National Canners Association opposes grade labeling but favors descriptive labeling. It argues that descriptive terms can give more complete information to the consumer than a classification of three or four grades. It has set up a committee which suggests ideal descriptive statements which should be used on canned foods. Some samples of labeling for canned corn are:

- (1) "Medium sweet . . . Very tender . . . Very thick consistency . . . To a high degree free from dark kernels, cobs, husks, or silk." and (2) "Unsweetened . . . Firm, not tough . . . creamy consistency . . . Practically free from dark kernels, cobs, husks, or silk."<sup>3</sup>

In all, this committee provides 144 different combinations of descriptive labeling for canned cream-style corn alone. Descriptive labeling of this kind would require the consumer to choose among hundreds of descriptions. The confusion which a housewife would face if she tried to consider all these labels in order to pick the best quality would probably be so great that she would still be in the dark. She would know more about the contents of the can than about the contents of one without a descriptive label, but she could not easily compare the qualities of different brands. The advertisers would, there-

<sup>3</sup> *Consumers' Guide*, Dec 14, 1936, p 6

fore, not need to fear any loss of their importance, and the well-advertised brands would continue to profit by their reputations.

The National Canners Association, however, maintains that its plan for descriptive labeling would be more useful to consumers. It points out the difficulty of determining the qualities of consistency, flavor, and tenderness that will satisfy most people, and of reducing these qualities to terms of three or four grades. It also argues that, with a grading system, products would be canned in such a way as barely to make the grade. If, for example, products scoring between 80 and 90 points are rated B, the canners would tend to aim at score 80 only. This might happen, but it does not seem to have been the case in Canada, where grade labeling is required. There it doesn't happen because "Canadian canners found that if a canner aims at 80 he may find his product scoring 79 and thus be rated lower than he had planned."<sup>4</sup>

It should be noted that not all canners oppose grade labeling. Canners in Pennsylvania and Wisconsin have indicated that they prefer the grade system. The Tri-State Packers Association, of New Jersey, Delaware, and Maryland, have voted 60 to 4 in favor of grade labeling.<sup>5</sup> Many business organizations believe that informing consumers of the grade of their product will not hurt sales. One of the largest meat packing companies uses its own system of grading. In the case of some products which have been graded sellers have found that sales increased. Of even more importance, they have found that there has been a shift from lower grade to higher grade products.

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The discussion of knowledge of what is inside a can brings out several problems which consumers face in trying to get the best possible goods for the money which they spend. It illus-

<sup>4</sup> Reid, Margaret G., *Consumers and the Market*, Crofts, 1938, p 379

<sup>5</sup> *Ibid*, p 378

trates the means used by consumers to get quality, and it also demonstrates that too often the means used are not sufficient for the purpose

Many consumers choose the food and other products which they buy by using brand names or trade-marks. When they prefer one brand over another it may be because they have tried it and found it satisfactory, or because friends who have tried it have recommended it. Or it may be that they have been persuaded to try it through the influence of advertising. The value of advertising in helping us to determine quality is discussed in Chapter VI. The value of experience with a certain brand is of real importance, especially in buying articles that are purchased often. But the situation is very different with regard to more durable goods which may be purchased only a few times during a lifetime. By trial and error through experience we can afford to buy several kinds of canned peas, or pencils, or ink, to find one that is satisfactory. But most consumers cannot afford to make an error in buying a wrist watch, or a suit of clothes, or a refrigerator, in order to find out by experience whether its quality is good.

Brand names are used as a means of securing quality by many consumers. Manufacturers put brand names on their products for only one purpose—to distinguish them from other products of the same kind so that the consumer will learn to ask for those particular brands. They are of real use to the consumer. They make shopping easier, for it is much simpler to ask for a certain brand than to describe the product wanted. They make it possible for consumers to repeat purchases of a brand which they have found satisfactory. Often, but not always, a well-advertised brand is of fairly good quality, for it is not good business to spend huge sums on advertising products if these products have defects that the consumer will notice. But brand names are far from adequate as a method

by which the consumer can be reasonably sure of getting good value.

The quality of products under the same brand name varies widely. If the price of raw cotton goes up, the manufacturer of cotton towels is faced with a problem. He may raise the price of his towels, but he fears that if he raises the price fewer towels will be sold. So he may decide to lower the quality of his towels, and let the price remain the same. Thus the consumer may buy the same brand, but get lower quality. An early frost may prevent tomatoes from ripening fully before they are picked. The canner of those tomatoes cannot get as good quality canned tomatoes from them as he could the year before when the tomatoes he used had been fully ripened. Yet the same brand names may be used on those of lower quality.

Not only do the same brands differ frequently in quality. Sometimes many different brands are really the same article, made by the same manufacturer. The Federal Trade Commission has reported the case of one manufacturer who made one kind of mattress. These mattresses, all of exactly the same quality, were sold under five different brand names at five different prices. A common practice is this. A large mail-order company, or a large retail store, will make a contract with the manufacturer of an article sold under a well-advertised brand name for such a large quantity of his products that the manufacturer will agree to leave the brand name off the article sold. The mail-order company, or the retailer, will then sell the products under its own name, usually at a lower price than the price of the same article under its original brand name. The consumer, while he may know that the XYZ Brand sewing machine is of good quality, does not know that he can get the same machine at a lower price without its brand name.

There are other articles, such as aspirin tablets, which must be of the same standard quality no matter who makes them. Aspirin which sell at 5 cents a hundred are of the same quality

and will produce the same results as those which sell at 59 cents a hundred, or even those which sell at 10 cents for a box of twelve. Yet some people have become so thoroughly convinced of the superiority of a certain brand that a druggist who tried to convince some of his customers that a cheaper brand was just as good reported that they insisted that only one brand would relieve their headaches.

There are often hundreds, and sometimes thousands, of brand names for the same kind of product on the market, many of them of equal quality. Even where the quality varies, it is pretty difficult to choose the best from 1,000 brands of face powder, or 10,000 brands of flour.

Price, it has already been shown, cannot be used as a completely reliable index of quality. Careful examination and inspection of goods at the time of purchase can help the consumer, but only to a limited extent. The appearance of a product does not always indicate its usefulness. Examination can show whether the buttons on a shirt have been firmly sewed on, and whether the seams of a dress are well made. But it cannot show whether the material will shrink or the color fade. Hidden values are often the most important ones.

And so, after considering the ways by which consumers try to find out the quality of goods they need, by examination, by experience, by advertising, and by considering the brand names and the price, we find that those methods are not enough. Labels which give information on the hidden values, which honestly describe the product, and which give the consumer knowledge of the grade which he buys, seem to offer one of the best helps to intelligent and economical buying. If the consumer could be sure of honest labels indicating that products were up to certain fixed standards of quality, one of his problems would be well on the way to being solved.

Buying according to certain definite standards is not a new idea. Let us leave the ordinary consumer for a while, in order



that we may compare the way the average person chooses his purchases with the way buying is done by one of the world's largest buyers, Uncle Sam. When the United States government makes purchases of food, clothing, textiles, building material, machinery, trucks, automobiles, or even paper and ink, it does not do it by means of brand names or claims of advertisers. It has a whole government agency to see that it buys only the quality which is best suited for the purpose. The Bureau of Standards in Washington is that agency. Its activities result in savings of millions of dollars each year to the United States government.

Before the government sets out to buy any of the things it needs, experts prepare what is called a "specification." This specification is a statement of standards of quality which must be met, and it includes all of the important characteristics of the goods in question. Specifications are then printed in the "Federal Standard Stock Catalogue." "Suppose for example, it is bleached cotton sheets which the government wishes to purchase. This is the procedure. The 'Federal Standard Stock Catalogue,' containing requirements for sheets, states that 'the material shall be made of thoroughly cleaned cotton free from waste.' In workmanship it demands that every sheet be 'free from avoidable imperfections in manufacture and from defects or blemishes affecting the appearance or serviceability.' There must be no less than 74 threads per inch in the warp and 66 in the filling. The minimum allowable weight is 4 6 ounces per square yard. Hems must be 2 inches at each end, or 1 inch at one end and 3 inches at the other. Nor may there be less than 14 stitches to the inch. Another requirement is a minimum breaking strength of 70 pounds in the warp and 70 pounds in the filling. Furthermore, the sheets must measure up to definite lengths and widths as specified in the leaflet."<sup>6</sup>

The government then advertises for bids for a certain number

<sup>6</sup> *Consumers' Guide*, Vol III, No 13, 1936, pp 8, 9

of sheets which will meet the standard set in the specification. Those who want to sell sheets to the government know that their products must measure up, and they quote the lowest price at which they will sell the quantity requested. The government orders the sheets from the lowest bidder. When the goods are delivered, a government agency tests them to see that they meet the standards set up by the government, for unless they do they will not be accepted or paid for.

The Bureau of Standards is equipped with an amazing array of apparatus used to test hundreds of different products. There is a machine on which shoes can be fitted and tested for wearing qualities. Other machines, for stockings, imitate the motions of the human leg, and stretch and pull the stockings being tested to see how much they can stand. Chemicals dissolve paper to discover what percentage of rags or of wood-pulp has been used in its manufacture. There are sockets into which hundreds of electric light bulbs can be connected and burned constantly to determine how many hours of service they will give. The equipment of the Bureau of Standards is so good that industrial and commercial companies all over the country make use of its services.<sup>7</sup>

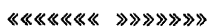
It has been estimated that the consumers of the United States could save at least a billion dollars a year if they could make use of the findings of the United States Bureau of Standards.<sup>8</sup> But these findings are not available. The Bureau publishes the specifications which are set up for government purchases, but it does not publish the names of products which meet those specifications. It will, however, furnish a list of manufacturers who have agreed to certify that their products comply with standards set by the government. But these manufacturers agree to certify only in cases of large orders, so that even this service

<sup>7</sup> See *Services of the National Bureau of Standards to the Consumer*, U S Dept of Commerce, Free

<sup>8</sup> Spahr, W E, *Economic Principles and Problems*, p 330

is not of much use to the "over-the-counter" buyer. The Bureau is at present trying to encourage the voluntary use, by manufacturers, of labeling plans which would let such buyers know that their products meet certain government standards.

If a good system of labeling seems to be an important way by which we can be sure of better quality in the goods we buy, what can be done about it? Some possible answers to this question are the subject of discussions later in the book. The use of grade labels on foods is increasing. One of the largest of the nation-wide grocery chains sells canned goods with grade labels. Cooperative stores are selling cans which have on their labels both a statement of grade and a description of the contents. Trade associations of dealers in many varieties of merchandise are considering agreements for labels which will give honest information as to quality. Fabrics which are truthfully labeled "sunfast," "all wool," or "guaranteed not to shrink" are increasing. This improvement is being made as a result of consumer demand. There are many who advocate a law requiring the grade labeling of foods, and there are others who object to such compulsory methods, but no one can deny that information as to the quality of goods sold to consumers will increase if consumers demand products on which such information is available.



Thus far our discussion of quality has been concerned chiefly with the interest of consumers in getting good value for the money they spend. In this respect consumers want to be protected against lack of information and against false and misleading claims. There is another aspect of the consumer's need for quality that is represented by the need for protection against dangers to health and safety.

If you buy a sweater thinking it is all wool, when it is actually made chiefly of cotton, you may suffer from the cold,



information he should know before buying. Compare the labels with each other. How many tell the name of the manufacturer? How many give exact sizes or amounts? Which information is easily read? Think of other points on which to make comparisons.

3. Write an ideal label for one or more of these articles, and see if other members of the class can point out defects in your label.

4. Compare information given on labels with information given about similar articles in a mail order catalogue.

5. What are "hidden values"? Illustrate from some article you use.

6. Divide the class into groups, each group selecting one product about which to secure all available information. Each group should report, telling from what sources information was obtained, how easy or difficult it was to get, and whether the information finally secured was adequate. If convenient, products may be tested or tasted. Information may be secured from labels, advertising, Consumers' Research or Consumers' Union reports, salespeople, and persons who have had experience in using the products.

7. Write to the United States Department of Commerce for a free copy of "Services of the National Bureau of Standards to Consumers."

8. Debate the subject: "Resolved, that the findings of the National Bureau of Standards should be made available to consumers."

9. Debate: "Resolved, that grade labels should be required on all canned foods."

10. Collect samples of guarantees given by the sellers or the manufacturers of a variety of products, and compare the degree of protection which the different guarantees provide for the consumer.

11. Make a list of as many factors as you can think of which

influence people to buy a specific brand of a desired product. Include such things as information on the label, brand name, union label, radio advertising, prizes offered, advice of friends, experience, reputation of the store, and others. Check the reasons which influence you most frequently in making your own purchases.

12 Make a list of rules for being a good buyer.



look for the best quality possible at that price. Large numbers of consumers must purchase at the very lowest price, regardless of quality.

The National Resources Committee made a survey of the incomes of consumers in the United States in 1935-36. It found that the typical American family had an income of \$22.00 a week. Half of America's families received less than that, and half received more. When all the living expenses of a family of four must be paid out of that income, the cost of living, which is the term used to include the prices the consumer must pay for all the goods and services he needs, becomes one of the most important things in life.<sup>1</sup>

The consumer is interested in prices because it is of vital importance to him that prices should be low enough for him to have the necessities of life. Perhaps one out of every twelve families has enough income so that there is no need to worry about necessities, but even most of this small group in our total population is interested in low prices, in order that they may purchase more conveniences. Only a very few people in the United States have incomes so large that, no matter how high prices go, they will have more than they can spend.

The importance of lower prices has increased since the depression. They have obviously become more important to the individual consumer, who has less to spend. They have also become important to the economists, business men, and other experts who have been trying to find out why we are having such hard times and what can be done to improve them. Some of the most scientific studies that have been made of our eco-

<sup>1</sup> Note If each individual in the United States had shared equally in the national income in 1935-36, his share would have amounted to about \$9.00 a week. If each family had shared equally with all other families, it would have received a weekly income of \$31, which is less than \$8.00 a week for each member of the average family. Thus it is clear that taking money away from the rich and giving it to the poor would not help very much in giving us the standard of living we would like to have. *Consumers' Guide*, Vol. V, No. 8, Sept., 1938.



conomic system have led to the conclusion<sup>2</sup> that the best thing for business would be a general decrease in prices. Lower prices would mean that more people could buy more things, therefore more people would be put to work to produce those things, therefore still more people could buy even more. The manufacturer, while he might not make as much profit on each article sold, would in the long run be better off, because he could sell larger quantities and keep his factory running at full capacity.<sup>2</sup>

Many business men agree with these conclusions. Many others continue to believe that their success depends on getting as high a price as they can. Business corporations are often like individual consumers in that it is difficult for them to take the long-time view. Both groups are likely to find it easier to work toward immediate gains, and forget the future, than to plan for what might be much better in the long run.

Consumers, however, are agreed in wanting to pay less for their purchases. They want prices to be lower. But before they can take any intelligent action to benefit themselves they must find out if prices really are too high, and the reasons for those prices. Perhaps the first step which the consumer must take in trying to find the answer to these questions is to realize all the things he is paying for when he buys any product.

#### WHAT THE CONSUMER PAYS FOR

The price which is paid by the consumer has to cover many things, but all of these things are usually classed under two headings, the cost of production and the cost of distribution.

<sup>2</sup> Brookings Institution, *America's Capacity to Produce, America's Capacity to Consume, Income and Economic Progress*, Maurice and Laura Falk Foundation, *Digest of America's Capacity to Produce and America's Capacity to Consume*, 1933-34, more especially, the Falk Foundation reprint from *Fortune*, November, 1935, article by H. G. Moulton, "The Trouble with Capitalism Is the Capitalists."

One of the best brief explanations of the importance of lower prices, written in very interesting, popular form, is found in Goslin, *Don't Kill the Goose*, N. Y., Harper, 1939.

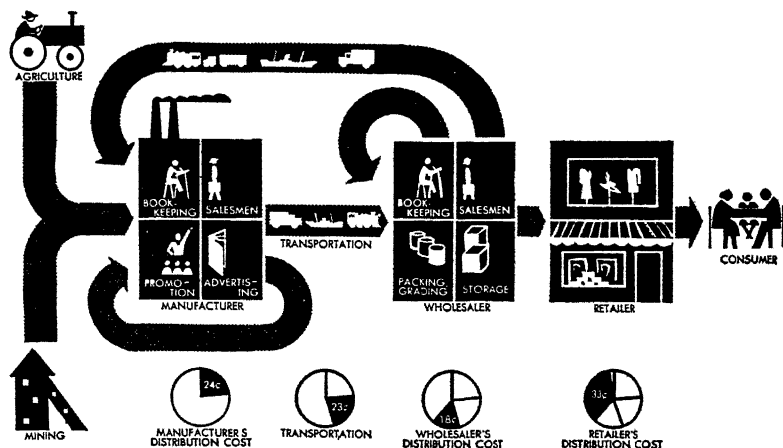
The price also has to cover any profits that have been made in both the production and distribution of the goods. Before going into a discussion of these factors it is important to understand just what the terms mean.

The cost of production is the cost of making an article or of adding to its value by improving it. Let us take a man's shirt as an illustration. The production of the shirt included, first of all, the raising of the cotton by a farmer. One of the costs of production involved at this stage is the cost of the land which the farmer owns or the rent which he pays for its use. If he owns the land, a part of his cost has to cover the taxes he pays on his farm. If he rents the land, the rent has to be high enough so that it can cover the taxes which the landlord must pay. The cost of the seed and fertilizer used by the farmer is included, and the cost of the labor which he must hire as well as the value of his own labor. Then there must be added to the cost of production the expense of all the processes that the raw cotton must go through before it becomes a shirt, the operation of the cotton gin, the textile factory which weaves the cloth, and the factory in which the finished shirt is manufactured. Some of the most important costs at this stage are wages paid to laborers, salaries paid to managers, the price paid for the factories and their machinery and equipment, the interest paid on money that may have been borrowed to build and run the factories, the insurance premiums paid as protection against fire and other risks, and taxes.

The cost of distribution is really the cost of getting the shirt to the person who is going to wear it. It includes the cost of selling the shirt, and many other things. People do not go to the factory to buy their shirts, and therefore the price must include the cost of transportation, and must help to pay the wages of those who work on the railroads. Since not all shirts are bought immediately after they are manufactured, cost of storage must be included. A wholesale company may buy large

numbers of the shirts and then sell them to retailers; and the expense of sending salesmen to retail stores, and of delivering the shirts to those stores, is part of the cost of distribution. The wholesale merchant also has to pay taxes, insurance, interest on borrowed money, and wages, and these are parts of the cost of distribution.

### THE FUNCTIONS AND COSTS OF DISTRIBUTION



National advertising and other costs amount to 2¢ of the distribution dollar

PHOTOGRAPH CORPORATION, FOR PUBLIC AFFAIRS COMMITTEE, INC.

From 59¢ OF YOUR DOLLAR

This chart illustrates the cost of getting goods from the producer to the consumer.

Frequently a very large part of the costs of distribution are the expenses of the retail merchant. The retailer often has to have a store in a convenient location, where rents and taxes are high. He must have attractive displays, show windows, efficient salespeople. He gives many services and privileges to his customers, such as the delivery of purchases and the convenience of charge accounts. He has to guess at how much of any certain kind of merchandise his customers will buy, and often he has to run the risk of either having too much on hand,

and perhaps selling surplus stock at a loss, or having too little on hand, and perhaps losing customers as a result. All of these add to the cost of retail distribution.

Another considerable amount, which adds to the cost of distribution, is the money spent in advertising by the manufacturer, the wholesaler and the retailer. There are many kinds of shirts on the market, and advertising is used to persuade customers to buy a certain kind. This cost must be added to the price paid by the consumer.

The costs of production and the costs of distribution are much more complicated than is indicated by these few paragraphs, but we now have a general picture of what is meant by those terms. It is equally important that we understand just what is meant by profits.

The word "profit" is used in many ways, and has different meanings at different times and to different people. When an economist speaks of profits he means the amount left over in any business enterprise after all of the expenses have been paid. These expenses should include interest on the money used and a fair salary for the business man. In other words, when a man makes a profit, he must make more than enough money to pay for the value of his own work in making the sale. A very simple illustration will serve to show the difference between profit and an income which is earned by the performance of some service. Suppose a boy buys a pocket knife for 50 cents and sells it to the next person he meets for 60 cents. He has made a profit of 10 cents. But suppose the boy sharpened the blades of the knife before he sold it. In that case, the 10 cents which he gained is not a profit, in the sense in which we are now using the word, but was a fair payment for the work he had done in increasing the value of the knife.

Suppose a man who owns a corner grocery store finds that after he has paid all of his expenses, including taxes and interest and wages, he has made \$150.00 in one month. He may

say that his profit that month was \$150.00, but it was really not profit but a fair salary for his own work. But suppose that during the next month something unusual happens. Let us say he has an opportunity to buy a carload of sugar at a low price. He buys it and holds it until the price has gone up. Suppose that he sells so much of it that this time he makes \$500.00 a month. Part of that amount is really profit. His own work was worth no more than the previous month. It probably cost him something to store the sugar. But he may have made a real profit of about \$300.00, because he took a chance on the sugar. If the price of sugar had gone down, he might have lost that amount or more. His profit, then, resulted from his willingness to run the risk of possible loss.

Profit is sometimes described as the reward for the willingness to take risks. A man makes a new invention which he believes will be of great value, but it will be expensive to get the equipment necessary to manufacture the product. He approaches a friend who has enough money, and offers him half interest in the invention if he will supply the money needed. If his friend supplies the money he is running the risk of a total loss in case the venture is not successful. But if it does succeed, he may make a great deal of money. If the money he makes is only equal to the amount of interest which he could have got by putting his money in a bank or in some other safe investment, then it cannot be said that it constitutes profit. But any amount that he makes in excess of a fair interest rate is his profit on the enterprise. If it had not been possible to make a profit, he would probably not have taken the chance of losing his money, and a useful invention might not have been developed.

Sometimes profits result from willingness to take a chance, sometimes they result from luck, sometimes from superior ability. They may come from unfair business practices, or from the building up of a monopoly. Another source of profit

may be the exploitation of labor or natural resources. Some people believe that there should be no profits, but that people should be rewarded only for the services they perform. Others point out that taking a chance is sometimes performing a service, and that if it hadn't been for the possibility of making profits people would not have invested the money necessary for the rapid development of our country. But our immediate concern here is not with the question of whether profits are good or bad, or whether some profits are too high or too low. We are dealing now with the factors which contribute to the price consumers pay. Whatever the value of profits as an incentive to the development of business enterprises, it is clear that the amount of the profit is a part of the price consumers pay, along with the costs of production and the costs of distribution.

There are so many things which the consumer pays for that the problem of discovering whether he is paying a fair price becomes extremely complicated. It is equally difficult to find ways to lower that price. The problem will be a little easier if we consider in detail some of the factors which contribute to the cost of one specific product. We are taking milk for an example, partly because it is one commodity which all consumers need, and partly because enough scientific studies have been made of the production and distribution of milk to give us some basis on which to come to a few conclusions.

#### THE COST OF A BOTTLE OF MILK

If you should spend a vacation in the town of Merida, which is one of the most important cities in the state of Yucatan in Mexico, you would probably be awakened at dawn by a strange clattering noise in the street below your window. Since Merida is on the whole an orderly, peaceful town, you would probably investigate such a noise. Outside in the street you would see a farmer and his son driving their goats along the street, stop-

ping at each house in which the people wanted to buy milk. The housewife who needs milk takes her own pitcher out into the street, and the farmer milks his goat there before her eyes. When she has all the milk she needs, the goats will be driven on to the next place, where more milk is delivered. This is not the only place where such direct methods of production and distribution are carried on. In Naples, Italy, it is said that, while cows are driven along the street as they are in Merida, goats, which have a preferred standing because their milk is more highly prized, are led straight up to the consumer's kitchen. The problem of distribution is very simple.

In the United States today there are still places where milk is delivered directly to consumers by the farmer who produces it, although he keeps his cows on the farm and delivers the milk in bottles. But in all cities and towns of any size milk is distributed in a much more complicated manner.

Milk ordinances provide certain standards which must be met to guarantee the purity of milk sold. Strangely enough, it is only within the last generation that purity of milk has been enforced by law. The first milk regulation on record was passed in Glasgow, Scotland, in 1809, and prevented the dilution of milk with water.<sup>3</sup> In the 1850's laws for a similar purpose were passed in Massachusetts. Between 1900 and 1910 the earliest laws regulating the bacteria in milk sold to the public were passed. Now the milk that is delivered in most cities must be pasteurized,<sup>4</sup> and this process is one of the costs which must be paid for when milk is purchased. Since purity of milk is such an important health necessity, consumers know that the cost of pasteurization is worth while.

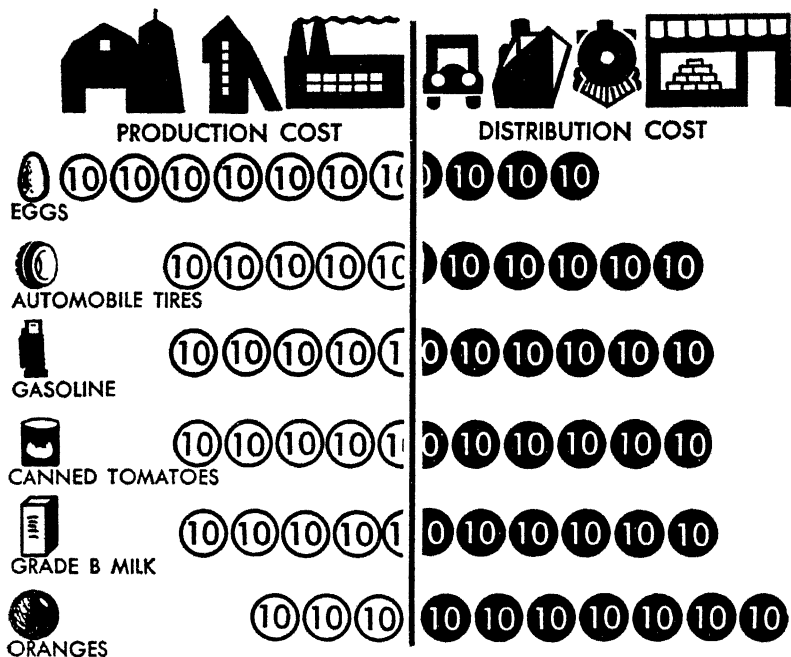
The city council in Milwaukee, Wisconsin, carried out a

<sup>3</sup> *Consumers' Guide*, Vol IV, No 10, Aug 9, 1937, p 5

<sup>4</sup> Certified milk is raw (unpasteurized) milk which has been produced under completely sanitary conditions. Dairy barns are inspected regularly and cows examined to make sure they are free from disease. There is comparatively little certified milk sold.

complete investigation of milk distribution from 1934 to 1936, with the assistance of experts from the United States Department of Agriculture and the Emergency Relief Administration.

## PRICE SPREADS



Each symbol represents 10 per cent of retail price

PICTOGRAPH CORPORATION, FOR PUBLIC AFFAIRS COMMITTEE, INC

*From 59¢ OF YOUR DOLLAR*

The chart shows what proportion of the consumer's dollar goes to pay for the costs of production, and of distribution

Some of the facts which were discovered in that investigation are very helpful in showing why milk costs as much as it does. One big factor was the method of hauling milk from the farms to the milk distributing plants in Milwaukee

"One hundred forty-three haulers in the Milwaukee milk-shed stopped at 2,597 farms to collect milk. Wastes showed up



startlingly. To get to the 2,597 farms they served it was necessary for these 143 haulers to pass 2,852 dairy farms. Hauling in this case, and Milwaukee is not exceptional, becomes something like playing leapfrog, with a hauler collecting from one farm then skipping a farm, while right behind him another hauler follows, collecting from the farms that have been skipped, skipping the farms that have been served. One trucker passed up 55 farms to make collections at 9 farms. Trucks devoted to milk hauling were used only to 60 per cent of their capacity." Another waste was discovered when the amount of time which truckers had to spend waiting at the milk plants was calculated. It was found that for every five hours the haulers worked, they had to loaf more than one hour.<sup>5</sup>

After the milk had been pasteurized and bottled a similar situation occurred. It was found that "on one day, March 16, 1934, the milk trucks of 17 companies paraded up and down one city block to serve the customers in that block. In two blocks 15 milk wagons marched and counter-marched to deliver milk. One thousand and twenty city blocks in Milwaukee were studied on March 16, 1934. In every block except one, at least two companies made deliveries. In 800 of the 1020 blocks, five companies went in and out during the day to deliver milk. Six companies delivered milk in 146 different blocks, and in 147 other blocks seven companies competed with each other. In two houses nine companies made deliveries."<sup>6</sup>

This "musical comedy parade" of milk drivers up and down the street is not only annoying to those whose early morning sleep is being disturbed, but it adds greatly to the cost of milk. Just how much it adds cannot be stated except with regard to each particular case. The Federal Trade Commission made an investigation in 1930, 1933, 1934, and 1935 in the cities

<sup>5</sup> *Consumers' Guide*, op cit, p 19

<sup>6</sup> *Consumers' Guide*, Vol IV, No 11, Aug 23, 1937, p 12

of Baltimore, Boston, Cincinnati, and St. Louis, and found that delivery costs alone took from 21 to 28 cents out of each \$1.00 paid by the consumer for milk. During those same years the cost of pasteurizing and bottling the milk took only 10 cents out of each \$1.00.<sup>7</sup> If milk were bought at retail stores, instead of through door-to-door delivery, the consumer might be able to save one cent a quart or more. In some cases milk is one cent cheaper at the store, but in other cases the price is the same. If the same price is charged, those consumers who do not demand doorstep delivery are helping to pay for it even though they are getting nothing in return.

An experiment in a number of midwestern cities shows that costs of distribution can be reduced if services are decreased. Dealers offered to sell milk at stores in gallon jugs, at a price 2½ cents a quart lower than that of milk delivered by the quart at the home. Over two-thirds of the families who bought milk in this manner were able to increase the amount of milk they used, the average increase being from 47 to 50 per cent.<sup>8</sup>

Another cause of excessive cost in the distribution of milk in Milwaukee was found to be failure to use the plants most efficiently. "Twenty-two plants in Milwaukee could have pasteurized 71 per cent more milk than they actually pasteurized in April 1934. They could have filled 122 per cent more bottles than were actually filled and washed 91 per cent more bottles than they actually washed. This may be due to the fact that milk sales in individual companies vary much more than the milk sales of all companies. Money, time, and labor is expended by the milk companies in an attempt to capture milk markets from each other. Because of the greater variation in sales, plant capacities must be higher than necessary to take care of sales variations. Milk plants therefore operate much

<sup>7</sup> *Ibid*, p. 12

<sup>8</sup> *Consumers' Guide*, Vol. IV, June 1938, p. 12

below capacity during shifts in the milk market in milk sales from one company to another.”<sup>9</sup>

Some of this waste might have been eliminated if Milwaukee families had used more milk, thus enabling the plants to work more efficiently. The investigators inquired into the amount of milk used in the city, and found that the average family used  $1\frac{1}{2}$  quarts a day. This average is not enough to supply the amount that health experts tell us is advisable, yet many families used less than this average. The investigators asked Milwaukee families whether they would use more milk if the prices were lowered 2 cents a quart, and 30 per cent of them said that they would.<sup>10</sup>

But the farmers received only about half of the dollar which the consumer paid for milk. What about the profits of the distributing companies? There was variation, of course, among the more and less efficient of the companies. The differences in the ways in which records were kept made it impossible for the investigators to make any completely accurate statement. However, for a part of the period studied, it seemed that the average distributor lost money rather than made profits, and that over the whole period the profits were probably very low.

In an attempt to find some way by which the cost of milk could be reduced, and the amount consumed increased, the investigators explored the possibility of a publicly owned system of milk distribution, which might be operated by the city. They carefully considered the cost of such a plant, equipped to take care of the estimated needs of Milwaukee consumers until the year 1950. It was not to be supported by taxes, but was to pay for itself over a period of 19 years. It would eliminate the waste involved in the “leapfrog” method of collecting milk from farmers, and in duplications of delivery services. The plans indicated that, under such a system milk could be

<sup>9</sup> *Ibid.*, No 11, p 22

<sup>10</sup> *Ibid.*, pp 20-21

sold to the consumer at 2 cents a quart less than the present price, and at the same time farmers could receive 21 cents a hundredweight more for their milk.<sup>11</sup> The farmers might even expect the additional benefit of being able to sell more milk, because of the increased purchasing power of the consumers. This was only a paper plan, however, and it has not been tried. There were other suggestions made by which the wastes in the existing system might be lessened. Distributors might zone their sales territories to eliminate duplication in delivery. Farmers might arrange cooperatively to have their milk hauled to central stations, from which it could be transported more economically to the distributing plants. Provision might be made for consumers to get lower prices when they purchased milk in larger quantities, since two or three quarts of milk can be delivered about as cheaply as one.

If it is possible to summarize the reasons for the high cost of milk in Milwaukee, and Milwaukee is a fairly good example of conditions that exist in many other places, we can see that one reason is the demand of the consumer for certain services. Another is the waste which results from the competition of many companies. But if competition often is responsible for increase in costs, the elimination of competition by monopoly may be equally dangerous.

It has often been said that competition is healthy for business and good for the consumer. Under the competitive system the most efficient business enterprises are supposed to win out, and the consumer is supposed to get higher quality than he would otherwise. The example of milk shows that this is not always true. It should be remembered that in Milwaukee, as well as in all cities which have in force good laws regarding the purity and quality of milk, there isn't much chance for competitors to try to outdo each other in providing the consumer with better value. The milk sold must have a certain

<sup>11</sup> *Ibid*, pp 20-23

butterfat content, and it must be free from harmful bacteria. The taste and quality of the milk is about the same, regardless of the company which distributes it. About the only ways in which competition for the patronage of consumers can be carried on are by giving more service, or by attempting through advertising to win more customers. These both increase costs. Therefore the situation with regard to milk is somewhat different from that of other products in which there is a real opportunity to compete in the quality offered to consumers.

We have seen that wasteful competition may result in increased prices. But the danger of increased prices may be even greater if competition is prevented by means of monopoly. Just what is a monopoly? Even the United States Supreme Court has found it difficult to define a monopoly, especially in a way that will apply to specific cases. In general, a monopoly is a unified or centralized control of any commodity to such an extent that prices to the consumer can be fixed.

There are several kinds of monopolies. A *legal monopoly* is one which is generally regarded as desirable, and is therefore a privilege granted by law. *Patents* and *copyrights* are legal monopolies which give the owner exclusive rights to the article patented or the material copyrighted for a certain number of years. Another kind of legal monopoly is that held by street-car companies which operate under *franchises* from the government. It would be clearly impossible for two or three street-car companies to build tracks and compete with each other on the same streets. Consequently the government grants to one company the exclusive right to provide street-car transportation. But because such a company, having no competition, might be in a position to charge consumers too much, the government retains the right to regulate the company and to have control over the services provided and the prices charged.

Another kind of monopoly is called a *natural monopoly*. It may belong to individuals, companies, or nations. Great

artists have a natural monopoly on their own talents, and those who are very great can command very high prices because no one can compete with them. A man may own property on which there are located the only hills in the vicinity which provide a good place for skiing. He has a natural monopoly, and can charge as much as people will pay for the privilege of skiing on his property. Pennsylvania has a natural monopoly on anthracite coal, and Africa has a monopoly on diamonds.

A legal monopoly is granted by law, and a natural monopoly is granted by nature. A third kind of monopoly, called a *capitalistic monopoly*, is not granted by nature or by law, but is developed by one producer or group of producers in order to control the price of certain goods or services. Laws have been passed to prevent this kind of monopoly, but the laws have not always succeeded.

One company does not need to control the whole supply of any commodity in order to eliminate competition and create at least a partial monopoly. In contrast with the conditions which were illustrated by the situation in Milwaukee, the Federal Trade Commission has described some corporations in the milk business which are big enough to exercise an almost monopolistic control in certain areas and for certain milk products. An article in the *Consumers' Guide*, which summarizes some of the findings of the Federal Trade Commission, begins its description with the following paragraphs:<sup>12</sup>

"Neapolitan milk consumers who get their milk warm from goats that walk into their kitchens need never bother themselves about distribution problems. There the economics of distribution are ideally simplified into a triangle, goat, goat-owner, and consumer. And unless the goat eats the money the consumer pays, the goat-owner gets it, and no economists need

<sup>12</sup> *Consumers' Guide*, Vol IV, No 22, Jan 31, 1938, p 14. The following material on milk corporations was taken from this article, pp 14-17.

go hunting up and down the country tracking down pennies in the consumer's dollar.

"American city consumers, however, never see the cow whose milk they drink, they don't know the owner of the cow, and as for the consumer's dollar, it takes an economic Sherlock Holmes to find out who gets it.

"Instead of a goat in his kitchen, the American consumer has a corporation on his doorstep. A goat can be seen, smelled, and touched, but a corporation is intangible, it has neither shape, smell, nor touchable substance. Anyone can describe a goat, but describing a corporation is a job for a trained economist."

According to the Federal Trade Commission report, the largest milk corporation in the United States grew by purchasing 331 separate dairy companies and by purchasing or organizing other companies which operate its cold storage plants, run its trucks and tank cars, and advertise its products. The corporation itself does not handle milk, but the companies which it owns handle milk, cheese, ice cream, and other milk products. It purchased most of the 331 dairy companies, not by paying for them in cash, but by giving stock in the big corporation to the owners of the companies it bought. The owner of a dairy company would sell his company to this big milk corporation, and promise not to engage in the dairy business again, and in return he would receive stock in the milk corporation and a job running his former company at a salary of anywhere from \$5,000 to \$50,000 a year.

This No. 1 milk corporation, although it does not operate all over the country, does buy nearly 10 per cent of all the milk sold by farmers in the United States. By 1934 it controlled 21 per cent of all the ice cream sold in the country, but in certain areas it controlled a much larger percentage. In Connecticut and Vermont it controlled one-half of the ice cream sold, and in four other eastern states and the District

of Columbia it controlled 40 per cent. One-third of all the cheese sold in the United States was marketed by this corporation.

The Federal Trade Commission examined other large corporations handling milk and milk products. It found that the No. 1 corporation and five others handled four-fifths of all the cheese sold in this country. Still further it found that "The three largest corporations could act together and set the price of cheese." It concluded that the price of cheese is not determined competitively.

If we are able to judge from the figures which were available to the Federal Trade Commission, we find that when corporations handling milk and milk products become large enough so that in certain areas they are able to set prices of products, they are much more likely to make profits than were the distributors which were investigated in Milwaukee. The Federal Trade Commission experts estimated that the average annual return on investment in 10 large milk processing and distributing companies for the years from 1929 to 1934 was 10.25 per cent. This period included some of the worst years of depression, when most business enterprises seemed to have a hard time making ends meet. Yet these milk companies were able to operate very successfully.

In this discussion of milk, only one of the products which all consumers need, we have noted some of the things which are included in the prices we pay. No matter what we buy, unless it is sold at a loss, we pay for the costs of production and the costs of distribution. If profits have been made, we pay for them when we buy. There may be losses somewhere along the line, and profits somewhere else. This has frequently been the case in the purchase of agricultural products. The farmers have often failed to receive enough to cover their costs of production, and yet the finished product is sold for a high enough price to insure profits to the manufacturer and dis-



tributor. A startling example of this occurred with regard to tobacco: "During the decade from 1923 to 1932, the income of tobacco growers was reduced almost two-thirds. The income of warehousemen was cut in half. The income of workers in manufacturing plants was reduced about 15 per cent per person, and the number was sharply reduced. The profits of the manufacturer were almost doubled."<sup>13</sup>

We have seen that in the case of milk the duplication of effort resulting from the competition of many companies greatly increases the cost of delivery and the price which we must pay. But we have also seen that the elimination of competition can result in a monopoly which is strong enough to set the prices where it pleases. Instead of passing onto the consumer the saving which results from the elimination of duplication, a monopoly is likely to increase its own profits.

#### THE CONSUMER PAYS FOR RETAIL SERVICE

Most of the ordinary purchases which we make come from a retail dealer. There are many kinds of retailers from whom we may buy. We may get our food from the independent corner grocery, or from a chain store, or from a big supermarket. We may even buy food in the grocery department of a large department store. At such a store we can also buy shoes, clothing, furniture, electrical goods, fishing tackle and drugs. We can even buy beauty parlor services at most department stores. Then there are specialty shops, at which only one kind of merchandise is sold, such as shoes or hats. Other forms of retailing are done through mail-order houses, and by direct house-to-house selling. The costs of distribution through these various kinds of retail selling vary. A good share of the

<sup>13</sup> An address entitled "Tobacco This Year and Five Years From Now," by J. B. Hutson, Chief of Tobacco Section, Agricultural Adjustment Administration, delivered before the Annual Convention of Tobacco Warehousemen at Asheville, North Carolina, June 14, 1934.

differences are due to the variations in the services which are provided to the customers.

#### THE COST OF CREDIT

When a person buys any goods he may pay cash, or he may buy "on credit," in which case he agrees to pay cash at some later date. According to the figures of the United States Census Bureau about one-third of all retail purchases are bought on credit.

People are more likely to use credit to buy more expensive articles than the less expensive ones. Less than one-fourth of the groceries and meat purchased is bought on credit. More than one-third of the purchases made in department stores is bought on credit. But when we look into the buying of furniture, radios, household appliances, lumber and building material we find that nearly three-fourths of these purchases are bought either on charge accounts or on the installment plan.<sup>14</sup> The greater difficulty of paying out large sums of money at one time is not the only reason why there are more credit sales in this last group of commodities. It is easier for a customer to get credit on durable goods than on goods that last only a short time. If a person buys food on credit and later is unable to pay for it, his grocer will probably have to lose the amount of the sale. But if the buyer cannot pay for furniture or a refrigerator, the seller still may have the opportunity to take back the article sold, and he will therefore not lose the total amount.

#### CHARGE ACCOUNTS

There are two ways in which retail dealers offer credit to their customers, by charge accounts and by installment buying. The United States Census of Business in 1935 found that over 21 per cent of all retail sales were made on charge accounts. Just what are the advantages to the consumer of charging his purchases and paying for them at the end of the month?

<sup>14</sup> U. S. Census of Business, 1935, *Retail Distribution*, Vol. VI, p. 14

Some consumers prefer to charge all their purchases and pay for them at one time because it makes it easier for them to keep records. They also find it easier to order by telephone. They are not troubled by wondering whether, when the grocery order is delivered, they will have enough cash on hand to pay for it. They do not need to carry with them enough money for all the purchases they may wish to make, and run the risk of losing some of it. They find in many cases, that charge accounts make for better relations between the retail store and its customers, and that in the case of merchandise which is not satisfactory the store is more likely to make adjustments with charge customers than with those who have paid cash. Charge accounts also have some advantages to the merchants. They are likely to help develop permanent customers and larger sales. They also help to spread buying throughout the month or the week, and thus avoid the crowding of the store on payday. In other words, charge accounts are a convenience, and consumers are likely to think they might as well take advantage of it if they can, since it doesn't seem to cost them anything.

But consumers are mistaken if they think that charge accounts are free. These accounts make a great deal of bookkeeping necessary, and the expense of bookkeeping has to be added to the price of the merchandise. Before a store can give credit to a customer it must find out whether he is likely to pay his bills promptly, and in most cities this means that there must be an investigation of his credit rating. There has been developed a network of retail credit associations, with bureaus in all cities of importance, in order that records may be kept of persons who have charge accounts, so that any retailer may make use of the information collected. All of this is expensive, and again its cost must be added to the price charged the customer. There is also the problem of bills which are not paid promptly. Records show that a great many charge customers, while they eventually pay their bills, fail to pay them at the end of each month. Suppose a bill goes unpaid for several

months. The retailer must have additional records, he must go to the expense of sending second and third bills, he must sometimes make other attempts to collect. Meanwhile he has lost the use of the money during this time, and if too many of his customers have delinquent bills he may not be able to pay cash for his own purchases from the wholesale company. Since wholesale companies give discounts for cash, the merchant has to lose the discount he might have had. And the retail selling price must be high enough to cover this expense also.

Many consumers do not realize that the privilege of having a charge account is one of the factors which is included in the prices they pay at all retail stores except those which sell for cash only. It is, of course, perfectly fair that consumers should pay for this privilege. But stores that extend credit, on the average, make half of their sales for cash. What about the cash customers? In most cases they have to pay just as much of the cost of credit as do the customers who get the benefits. While a few retail stores have been known to give discounts to those who pay cash, most of them have one price for all of their customers.

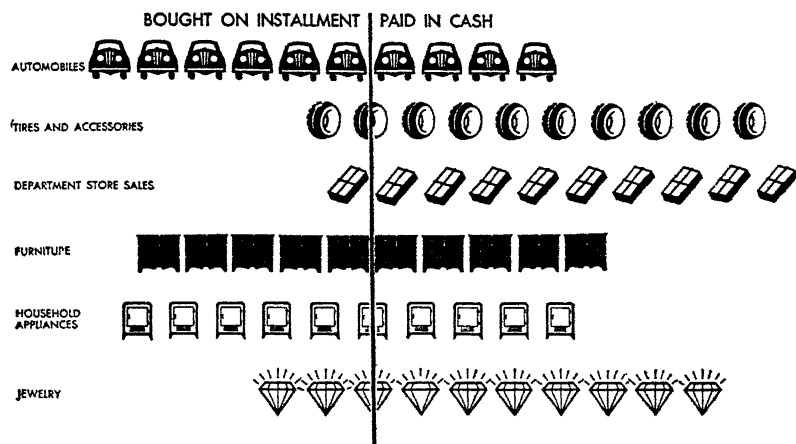
If a consumer does not need or want the convenience of a charge account enough to be willing to pay the extra cost involved, he can find one solution by buying from stores that sell for cash only. But as a general rule in most places he cannot get everything he wants at cash stores. Here and there, retailers are beginning to adopt policies which result in a fairer distribution of the costs of credit to those who use the credit only. One store, for example, gives 2 per cent off for cash, and 1 per cent off for all bills paid within 30 days. For bills that are still unpaid after 60 days, it charges 1 per cent a month as interest.<sup>15</sup> Under such a policy, cash customers have an incentive to pay their bills on time, and those whose bills remain unpaid for a long time have to pay for the extra cost.

<sup>15</sup> Reid, Margaret G., *Consumers and the Market*, Crofts, 1938, pp. 249-250

## BUYING ON THE INSTALLMENT PLAN

A college student, whose allowance for personal expenses is a certain limited amount each month, finds that he needs a new suit. He stops at a clothing store near the campus and

## INSTALLMENT SALES



Each symbol represents 10 per cent of total retail sales  
 From Beighey and Spanabel, ECONOMIC AND BUSINESS OPPORTUNITIES, J. C. Winston Co.

PICTOGRAPH CORPORATION

Purchases of automobiles and household furnishings on the installment plan represent a large proportion of the credit used by consumers.

finds one that he likes priced at \$27.00. The clothing dealer, knowing that such a sum is pretty large for most students, sells suits on the installment plan, and explains that the suit can be bought for a down payment of \$7.00 and four more payments of \$5.00 each. The student pays the \$7.00 and goes out happily with his new suit. He would not have been able to pay the \$27.00 but he can pay \$5.00 a month, and have the benefit of the new suit during that time. He does not know what he is paying for installment credit.

If he had asked what the suit would have cost if he had paid cash, he would have been told that its cash price was \$25.00. He would then have recognized that he was paying the extra \$2.00 as interest on the \$20.00 which he still owed. But even then he would probably not have realized what a high rate of interest he was paying, unless he stopped to figure it out. Suppose we figure it out here. Since he was to pay back the \$20.00 in four equal monthly installments, he was really borrowing \$20.00 for one month, \$15.00 for two months, \$10.00 for three months, and \$5.00 for four months. This would be equal to his owing the dealer an average of \$12.50 for a period of four months. For this he paid \$2.00, which is an interest rate of 16 per cent for the four-month period, or 48 per cent a year. This seems to be a pretty high rate of interest, but it is low compared to some of the charges made for purchases on the installment plan.<sup>16</sup>

The amount which the consumer pays for installment credit is not as hard to discover as the amount he pays for the privilege of a charge account. Yet few of us realize how much the "easy payments" really cost unless we figure out the true interest rates. One study which was made of the various rates charged attempted to include only installment terms most frequently used. It showed that, not only are the rates high, but they vary a great deal. Some of the annual rates charged follow:<sup>17</sup>

New automobiles .....	21.9 per cent to	32.9 per cent
Used automobiles .....	34.8 per cent to	47.1 per cent
Automobile tires .....	33.6 per cent to	106.1 per cent
Refrigerators .....	8.3 per cent to	51.8 per cent

<sup>16</sup> This interest rate has been figured in a simplified manner, which is often used. If, instead, this rate had been figured in accordance with a widely used formula for calculating true interest, the rate would have been 52.2 per cent a year.

<sup>17</sup> Foster, LeBaron R., "Installment Credit Costs and the Consumer," *Journal of Business*, University of Chicago, Vol. VIII, Jan. 1935, pp. 27-45.

Furniture .....	6.0 per cent to	55.5 per cent
Radios .....	11.5 per cent to	98.3 per cent

In recent years there has been a decided increase in the amount of goods sold on the installment plan. Many believe that this increase is a good thing. It makes it possible for the buyer to have the use of some article immediately, without waiting until he has saved enough money to pay for it completely. Some believe that it encourages thrift by making the purchaser budget his income in order to make definite payments at certain times. Others disagree, believing that thrift would be promoted more effectively by saving regularly before the purchase is made. Some think that buying on the installment plan makes it possible for many people to have more goods than they would otherwise be able to buy. This is probably true, although it should be remembered that the extra money which is paid to cover the "carrying charges" might be used to purchase other things if the buyer did not have to use it to pay for credit. No rule can be set down stating whether installment credit is good or bad. This, like other phases of planning budgets and spending income, is a matter for each consumer to decide for himself. But the intelligent consumer will, in making his decision, consider several important factors.

First, the consumer should recognize how much he must pay, in addition to the cash price of the goods he wants, for the privilege of buying on the installment plan. He must realize that, even if a merchant advertises "no carrying charges," he still has to pay for credit. There are always carrying charges. When a dealer advertises that there are no such charges on the goods which he sells on the installment plan, the actual situation is probably that he sells so large a proportion of his merchandise on the installment plan that he has only one price. He has no set amount which is labeled a "carrying charge," instead that charge is included in the price of the article. Like the merchant whose customers pay for the privilege of having

charge accounts, the exact amount of the charge is nowhere listed, but it must be paid for just the same. No merchant could afford to give customers long-time credit on the installment plan without charging them for that credit.

The intelligent consumer, before buying anything of value on the installment plan, will find out exactly what rate of interest he is paying. He cannot usually find this out merely by reading the terms of the installment contract. The college student who bought the suit did not realize that his \$2.00 "carrying charge" was actually an interest rate of 48 per cent annually. The person who investigates will often find that the "carrying charge" which is stated is far below the actual charge. Take this case of a radio as an illustration. The cash price of the radio was \$100.00, the price on "easy payments" was \$104.00. Since this was only \$4.00 more than the price listed for cash, the dealer stated that the carrying charge was 4 per cent. But for spot cash the dealer would deduct \$10.00 from the "cash price," which in reality meant that a person buying on the installment plan would pay \$14.00 more than if he paid cash. Since he had to pay a \$5.00 down payment in cash anyway, he was really paying \$14.00 for the privilege of paying the remaining \$85.00 in 12 monthly payments. Instead of a carrying charge of 4 per cent he was paying more than 30 per cent.<sup>18</sup>

A careful buyer will not only figure the actual charges which are being made, but he will compare the terms of various dealers. The table on page 84 shows that terms vary a great deal. A refrigerator, for example, could be bought on terms which involved charges of from 8.3 per cent to 51.5 per cent. In the purchase of any article for which a considerable sum of money is paid, time spent in comparing terms and rates is often well worth while. Only when the consumer knows the true cost of

<sup>18</sup> Foster, LeBaron R., *Credit for Consumers*, Public Affairs Pamphlets, No. 5, 1936, Public Affairs Committee, Washington, D. C., pp. 11-12.



installment credit is he able to decide whether it is wise for him to buy "on time."

A further factor in installment credit arises out of the fact that contracts are required. When a person buys any article on time, he signs a contract in which all of the terms of the purchase are stated. Most dealers are honest in these contracts, but there are many cases in which customers, because they fail to read before they sign, agree to terms which are unfair. It is the buyer's fault if he signs such a contract. But the contracts are often long, printed in small type, and sometimes the dealer does not encourage the buyer to take time to read the contract through. The buyer should be particularly careful to notice what rights the dealer may have in case payments are not made when they are due, whether the seller can take back or repossess the article, and whether the buyer has any chance to redeem it once it has been repossessed.

A final and most important question which the consumer should ask before buying anything on the installment plan is whether he would be wiser to borrow money from some other source and pay cash for his purchase. He may find that he can borrow money from a bank, a credit union, or from some other source at a rate of interest which is lower than the carrying charges of installment buying.

#### THE COST OF OTHER SERVICES

There are many other services which consumers get from retail dealers which they must pay for in the form of an increase in the price of the goods they buy. Delivery service is one of these. Many stores which sell for cash only also save the cost of delivering purchases, and will not deliver orders unless the customer pays a fixed charge for the service. But stores which do not follow the "cash and carry" policy must add enough to their prices to cover costs of delivery as well as costs of credit. And just as the expense of charge accounts has

to be paid by those who pay cash as well as those who charge their purchases, so the cost of delivery service is paid by all customers, whether they carry home their own packages or have a shiny delivery truck drive up to their doors.

One reason why the costs of distribution have increased is the increasing number of small purchases. It takes just as much of a clerk's time, and almost as much effort, to sell 5 pounds of sugar as to sell a 50-pound sack, yet more and more customers are buying in smaller amounts. One large drug store chain reported that its average sale per customer amounts to 22 cents.<sup>19</sup> Another reason why costs are high is the demand of consumers for a variety of goods from which to select. Style is another important factor. Retailers must try to stock up on enough up-to-the-minute styles in women's clothes to supply a variety from which the customers may select, but they must be careful not to get too much. Probably a certain number of the dresses in stock will have to be sold at lower prices because they are no longer the latest style. The retailer knows this, and he must therefore mark his prices high enough to cover any losses caused by style changes.

Many stores find that their costs are increased considerably by the amount of goods returned to the store. Returned merchandise adds to costs in many ways. Several persons' time is taken up in handling it. Records have to be made. Sometimes the merchandise cannot easily be re-sold, or may have to be sold at a lower price. Most customers demand the privilege of returning purchases without realizing the extra cost it involves. Sometimes a customer returns goods merely because he has changed his mind. This may be the fault of the customer, or it may be the fault of salespeople who were too insistent in persuading the customer to accept merchandise offered. Frequently goods are returned because they are defective or of

<sup>19</sup> Twentieth Century Fund, *Does Distribution Cost Too Much?* N Y, 1939, p 127

poor quality. Occasionally sizes do not fit and colors do not match. Many of the costs resulting from the habit of returning merchandise could be decreased if sizes were standardized, if labeling were made more complete and informative, and if salespeople were always well informed about the characteristics of the goods they sell. Much of the expense could be lessened if customers themselves were always reasonable in their demands, if they would consider more carefully just what they want before they shop, if they would examine more closely the merchandise they buy, and if they would discontinue the practice frequently indulged in of buying and having several articles delivered when all the time they intended to keep only one.

It would take too long to list all of the services which retailers provide their customers, and for which the customers pay when they buy merchandise. Two of the most costly services are credit and delivery. Privileges, like that of returning goods, are also expensive. Shoppers who spend hours looking at merchandise without any real intent to buy take the time of salespeople and this time must be paid for by those who do buy. And yet all shoppers want the opportunity to examine and compare merchandise before making a purchase. Just because these extra services add to the cost of goods we must not assume that they should be eliminated. Many consumers want services, and are willing to pay for them. If, however, more services are provided than most consumers really want, then the expense of those services is probably not justified. Earlier in this discussion we saw that, for most consumers, price is more important than extra services. The average consumer, trying to get along on \$22.00 a week, probably would be better off paying a lower price, carrying home his own purchases, and getting along without some of the extra services. Yet if he buys at a store which furnishes those services without extra charge, he might as well make use of them, for their cost is included in the price he pays. One solution might be similar

to that suggested with regard to the cost of charge accounts. A practice might be developed of setting one basic price for goods which are bought on a cash and carry basis, and making extra charges for extra services. This is now seldom done in department stores, but is often practiced by other retailers.

#### THE CONSUMER PAYS TAXES ON THE GOODS HE BUYS

Every consumer is a taxpayer, whether he knows it or not. We have already seen that taxes form a part of the costs of production and the costs of distribution. Therefore the price which the consumer pays for the finished product must include its share of the amount which the producer and distributor have paid to the tax collector. The producer and distributor have paid the taxes directly. They know exactly how much those taxes are. The consumer, however, pays for the taxes indirectly, and it is almost impossible for him to find out just what part of the dollar he spends goes for taxes.

Taxes may be high, or they may be low, but they are always necessary. Whether they are high or low depends on how many governmental services they pay for. Citizens want their government to provide police and fire protection, a pure water supply, good roads, schools, and countless other services. Taxation is a very important subject in itself, and it is not our purpose here to attempt to consider the whole problem. There are, however, some kinds of taxes which are of particular importance to our interests as consumers. One of these is the sales tax.

Some taxes may be hidden from the consumer, but the sales tax is not one of these. In states where general sales taxes are in effect, the consumer cannot help being constantly reminded of the existence of the tax. The more he buys, the more taxes he pays.

One sales tax which is in existence all over the United States is the gasoline tax. The federal government collects a tax of

one cent on each gallon sold, and the various state governments collect from 2 cents to 7 cents. The money from gasoline taxes is used for the building, improvement, and maintenance of roads. Gasoline which is not to be used to run cars and trucks used on public highways is not taxed.

The sales tax on gasoline is an example of a tax which is collected especially from people who are benefited by the tax. If Jack Smith drives his car twice as far as Tom Jones does, he will probably use approximately twice as much gasoline. And he will pay twice as much tax. At the same time he is likely to be getting just about twice as much pleasure and benefit from the good roads which the gasoline tax provides. This particular sales tax fulfills one of the requirements of a good tax—that the amount collected should be in proportion to the benefits received.

Another important requirement of a good tax is that it should be collected from taxpayers in proportion to their ability to pay. The income tax is the best example of a tax which follows this principle. The person with the very small income pays no income tax. The person with a moderate income pays some income tax. One with a higher income pays a higher tax. Another example of taxation based on ability to pay is found in automobile license fees in states in which the cost of the license depends on the value of the automobile. It is assumed that a person who can afford an expensive car is better able to pay than one who has an inexpensive model.

An example of a tax which violates this principle of ability to pay is the general sales tax. A general sales tax is not just a sales tax on gasoline, or some other specific commodity, but is a tax on all purchases, with some few exceptions. General sales taxes are not all alike, but usually they require the person who buys almost anything which amounts to over 15 or 25 cents to pay a tax amounting to a certain percentage of the cost of his purchase at the time the purchase is made. It may be

argued that those who have greater ability to pay taxes will buy more things and therefore pay more sales tax than those who have less ability to pay, but this is not a sound argument. As an illustration, suppose we take the average consumer with an income of \$22.00 a week, with which to support a family of four. He will need to spend practically all of that income to provide food, clothing, shelter, and other necessities. He will have to pay a sales tax on all that he spends, which is on all of his income. But the wealthy man earning \$1000 a week cannot possibly spend all of his income on food, clothing, shelter, and even on luxuries, although he will spend many times more than the average consumer. He will have a good share of his income left for savings or investment after all of his consumer needs and desires have been satisfied. Therefore, unlike the average consumer, he will not pay a sales tax on all of his income, but only on a small part of it.

The general sales tax, therefore, is a tax which is unduly hard on the consumer. It increases his cost of living. It taxes those least able to pay proportionately more than those more able to pay. It decreases the consumer's purchasing power. Students of the tax problem are generally agreed that the sales tax is not the best kind of tax. One reason why it has been adopted in so many states is that its supporters argue that it is easy to collect, and is the method by which they think they can collect the greatest amount. But consumers who have studied the subject recognize that general sales taxes are a disadvantage to them.

#### THE TARIFF AFFECTS PRICES

Another kind of tax which has a direct influence on our interests as consumers was mentioned early in this book. That tax is the tariff. In the earliest years of the history of the United States tariffs were levied for the purpose of getting money with which to help pay the expenses of government.

Such tariffs were called tariffs for revenue. In general, the duties on imports which were levied under those tariffs were low, but because there were many products imported, much revenue was collected.

Before many years had passed, the Americans began to build factories. These small factories appeared especially during the Napoleonic Wars and the War of 1812, when the United States found it difficult to import manufactured goods. But when the wars were over, and trade with Europe was again possible on a large scale, the older, larger, and richer factories in Europe again began sending their goods to America. Our industries found it difficult to compete with the goods being imported from England. And so, in order that our infant industries might be protected from the competition of cheaper goods from abroad, this country began to levy protective tariffs.

Raising revenue is not the chief purpose of a protective tariff. Its aim is to charge a high enough duty on imported products so that when they are sold in this country they will have to be sold at a price so high that domestic products have the advantage. Manufacturers in this country can price their goods as high as that of imported goods, but because they do not have to pay the tariff duties, they can profit by the amount of the tariff. The protective tariff, then, raises prices not only on imported goods, but on domestic goods as well.

Sometimes protective tariff rates are set so high that they become prohibitive. In other words, they are so high that foreign products will not be imported to any extent. In that case, very little money is collected from the tariff, but American manufacturers are freed from the competition of foreign goods. Thus we find that tariffs differ from other forms of taxes, in that the higher the rates, the less money the government is likely to collect.

Throughout most of our history since 1816 we have had protective features in our tariff laws. Especially since the Civil

War our tariffs have, with one or two brief exceptions, grown higher and higher. Our industries have long since outgrown their infancy, many of them are the largest and strongest in the world. Yet the stronger they get, the more they demand protection. As a result of the protective tariff the prices of practically every manufactured product have been affected. The consumer pays the difference. If consumers realized to what an extent their cost of living is increased by protective tariffs they would take much greater interest in our tariff policy.

Increased prices have not been the only effect of our high tariff, for by this blocking of American purchases of foreign products, consumers in foreign countries have been prevented from buying American products. As a result, those producers in America who can provide more than we need in this country cannot find a market for their surplus abroad. Those who have suffered most in this way are the American farmers. England, before the onset of the present war, would have liked to sell manufactured goods in this country and to buy agricultural products in return. But if England could not sell her products in the United States, then she would have no money with which to buy wheat from American farmers. This inability of foreign countries to buy American products became especially important after the War of 1914-18, because at the end of that war most nations owed the United States large amounts of money. They could not pay their debts in gold, because they didn't have enough. They might have been able to pay their debts with the money received from goods sold in this country, but the tariff prevented their selling goods here. The natural tendency of European producers of manufactured goods was to sell their products in countries in which they would not have to pay such a high protective tariff, and to buy their raw materials and agricultural products from those countries in which they could sell their own products.



Within the last few years our government has taken steps to lower the great barrier which our tariff has built up against foreign trade. Through reciprocal trade agreements our government agrees to reduce the tariff on certain products in return for reductions which other countries agree to make in their tariffs on American products. Between 1934 and 1940, 24 such agreements have been made, over half with countries in the western hemisphere. If this policy of reciprocal trade agreements continues, our tariff rates will gradually be lowered, and for each step in lowering the rates some foreign country will lower its rates on our products. The American consumer, as well as the foreign consumer, will benefit by lowered prices. At the same time, increased trade will result in better and friendlier relations with our neighbors.

There are opponents of the reciprocal trade agreement policy. Those who support a policy of high protective tariffs would naturally object to the lowering of tariff rates in this manner. The producers of goods on which the rates are being lowered object because they do not want to have to compete with foreign products. Many dairy farmers have, for example, objected to the lowering of tariff on butter. One thing is forgotten by many of them, and that is that they are consumers as well as producers. If the farmer could add up the total of all that he could save on the cost of the clothes he wears and the machinery he uses if the prices of those products were not increased by a protective tariff, and then compare that saving with the increased income which he gets as a result of the tariff on butter, he would have a good basis on which to decide just how his interests are affected by protective tariffs. Usually, however, we forget our interests as consumers. This neglect is one reason why there has been so little opposition to our high tariff policy. Perhaps one of the things which the present reciprocal trade agreement policy represents is an increased awareness of the importance of consumer needs.

## OTHER LAWS AFFECT PRICES—ANTI-TRUST LEGISLATION

In the United States we have generally believed in competition as a necessary protection for consumers. Fair competition is supposed to result in better quality, lower prices, and encouragement of the most efficient business methods. Our belief in the importance of competition among business and industry has led to the passage of several laws on the subject.

Monopoly is the greatest threat to competition. Whenever any one business gains a monopoly on any product, it is able to fix prices at whatever level it finds most profitable. But price fixing does not always require that one single company must control the entire supply of a certain commodity. An agreement among many companies can have the same effect.

Congress has passed several important laws intended to prevent monopoly and to preserve competition. In 1890 the Sherman Anti-Trust Law was passed. This law prohibited monopolies, attempts to create monopolies, and combinations in restraint of trade. The law does not define these terms, but left their definitions up to the courts. To what extent does this law protect consumers from the raising of prices by means of monopoly?

Our histories give us a partial answer. During the first twenty years after the anti-trust law was passed some of the greatest trusts in American history were formed. The law apparently could not be enforced, and the intent of the law was not very widely carried out during this period. But in 1911 the courts ordered the breaking up of the Standard Oil Company and the American Tobacco Company as combinations in restraint of trade. From then on some important steps were taken to try to prevent monopolistic tendencies from destroying competition.

But attempts to destroy competition continued. It is a natural tendency for a successful business to try to prevent other

new business groups from competing with it. And so more laws were passed to try to do away with unfair practices which continued in spite of the Sherman Law. The Clayton Act and the Federal Trade Commission Act were two of the most important. They were passed in 1914.

The various anti-trust laws are of value only to the extent that they are adequately enforced. President Theodore Roosevelt started a campaign of "trust-busting," which actually accomplished very little, partly because it was undertaken with a staff of only five lawyers and four stenographers.<sup>20</sup> At present the Anti-trust Division in the Department of Justice employs about two hundred people, and it is able to accomplish much more in the interest of consumers.

A member of the Anti-trust Division has given several examples of ways in which the enforcement of anti-trust laws is helping consumers.<sup>21</sup> The problem of housing is a very important one to American consumers. An investigation was made to find out why the costs of building are so high that it seemed impossible to provide an adequate supply of good living quarters at a cost low enough to be available to many of our people. It was found that a part of this cost is due to price-fixing arrangements by manufacturers and distributors of building materials and by builders. Another part is due to wasteful methods of distribution and construction which have resulted from efforts of distributors, contractors, and labor groups to make more work or to prevent new competitors from getting any of the available work. Another part is due to attempts to prevent experimentation with new and possibly better and cheaper methods and materials, such as prefabricated housing.

<sup>20</sup> Edwards, Corwin B., Address on "Consumers and Monopoly Problems," before the National Conference on Consumer Education, at the Institute for Consumer Education, Stephens College, Columbia, Missouri, April 3, 1940 (Mimeographed Release)

<sup>21</sup> The following illustrations are taken from Edwards, *op cit*, pp 7-11

In eleven different places throughout the United States the Anti-trust Division has been presenting such evidence to grand juries, and 69 indictments for violation of the anti-trust laws have been secured. The benefits to consumers are illustrated by results in Pittsburgh. Two housing projects have been built recently in that city. One was finished before the investigation began, the other afterward. The second will cost \$148.00 per room less than the first. As a result the families living in the second project will be housed for 17 per cent less than the families living in the first project.

Another investigation of the cost of milk in Chicago resulted in the discovery of a conspiracy to fix the price of milk, to exclude independent distributors from the market, and to hinder the sale of milk by stores and promote the more expensive door-to-door delivery. The Supreme Court upheld the charges of the Anti-trust Division. As a result, the average price of milk bought in stores went down from 10 and 12 cents a quart to 8½ cents, the amount of milk bought from stores increased, and the annual saving to store customers is at least 3 or 4 million dollars.

There are many more illustrations of ways in which the enforcement of our anti-trust laws is of assistance to consumers. If the American people want these laws enforced, they must be willing to support the government in the tremendous tasks, first, of investigation, and second, of taking action against those who are violating the law. The Anti-trust Division can work effectively only if it has a large enough appropriation to carry out its duties.

#### “FAIR TRADE” LAWS

We have just been concerned with laws which attempt to foster lower prices and better quality by maintaining competition. Within the past few years there have been passed in 44

of the 48 states<sup>22</sup> laws which have as their purpose the elimination of certain kinds of competition. These laws have usually been called "fair trade" laws. They apply to branded and trade-marked products, and provide that manufacturers who own brand names or trade-marks may make contracts with retail dealers which fix the price at which those branded or trade-marked products may be sold. They further provide that, once such contracts are made, all retail dealers, whether they signed the contract or not, must sell those products at the prices fixed in the contracts. The "fair trade" laws apply to only those products which are in competition with other similar products made by different producers. In other words, if there were only one tooth-paste on the market, its price could not be fixed in this manner under these laws. But prices can be fixed for all trade-marked products which are not the only ones of their kind on the market. A manufacturer can make a price-fixing contract with only a few dealers, and under this law all other dealers must charge the fixed price, even though they might want to sell at a lower price. Competition between dealers in the sale of these products to the consumer is thus eliminated.

When the first of these state laws were passed, the fixing of prices was made legal within the states concerned. But the Sherman Law and Federal Trade Commission Act, laws which had been passed by Congress, made price fixing illegal. Since Congress has power to regulate only interstate commerce, the federal laws apply only to products which, at one stage or another, are articles of commerce between two or more states. For a time it seemed as if price fixing might be legal under state law and illegal under federal law. But in 1937 Congress amended the anti-trust laws to exempt from those laws any price-fixing agreements which were legal under state laws.

<sup>22</sup> In November, 1939, the four states which did not have such laws were Delaware, Missouri, Texas, and Vermont.

Because these laws carry out a principle of price fixing which is so contrary to the generally accepted principle of encouraging competition, they have received considerable criticism. How do they affect the prices which we pay?

The laws have been passed largely as the result of the efforts of business groups who hoped to profit by the price-fixing agreements. The small retailer had found himself suffering from the competition of the big cut-rate dealer. He protested at the custom of using "loss leaders" as "bait" to attract customers. A "loss leader" is a popular, well-advertised product offered for sale at a price which may be less than cost. Customers are attracted by the low price, and because it is a well-known article they recognize it as a bargain. So they go in and buy the article, and they may think that because this article is such a good bargain all of the other prices are equally low. But the price of other products has been set high enough to cover the losses taken on the product used for "bait." The protest of smaller dealers against this practice of "loss leaders" is given as one of the main reasons for the passage of "fair trade" laws. Under those laws trade-marked products cannot be sold at "loss leader" prices.

Those who favor these laws further argue that they need this protection in order to compete with large dealers. They argue that, without the protection of these laws, there are many products which they cannot afford to handle. They believe that when a manufacturer secures popular approval and "good will" toward his product by wide advertising, he should be able to have some control over the price at which that product can be sold to the consumer.

Those who oppose the laws say that they are unfair. They point out that different stores have different costs of operation, and argue that an efficient cash-and-carry dealer should be allowed to sell trade-marked products at lower prices than those which must be charged by less efficient stores and those having

higher costs of operation. They believe that price fixing is price raising.

In general, the large distributors, who ordinarily sell at lower prices, are the ones that have objected most strongly to these laws. Some consumer agencies have also objected to them. Various studies have been made to try to find out just what the effects of these laws have been on prices. The results of the studies are conflicting. They depend on the kinds of stores studied, and also on the opinions of those who make the studies. For example, those who oppose the laws quote studies of prices in cut-rate drug stores, and find those prices have increased. Those who favor the laws study prices in rural communities and small towns, and find that prices have decreased as a result of the laws. The facts presented in these studies are probably presented accurately, but the consumer, trying to find out whether these laws help or hinder his interests, should remember that groups which have a direct financial interest in the laws will present facts and arguments on one side only.

The Committee on Distribution of the Twentieth Century Fund gives the results of one study of the effects of price fixing under the law in the state of New York. This study shows that the prices on 50 popular products were increased 1.9 per cent in neighborhood drug stores and 29 per cent in large cut-rate stores in New York City. The prices on the same products in smaller cities, declined from 4.4 per cent to 5.1 per cent, while the prices in small towns declined 6.7 per cent.<sup>23</sup> According to this study, consumers who bought from large cut-rate drug stores in New York City were at a disadvantage, but consumers in smaller cities and villages gained.

If the consumer believes that this new kind of price fixing is increasing the prices he must pay, there are remedies which he can use. He can try to have the laws repealed. Or he can refuse to buy products on which prices have been fixed, and

<sup>23</sup> Twentieth Century Fund, *op cit*, pp. 274-275

buy instead those competitive products of similar quality made by other producers.

#### CHAIN STORE TAXES<sup>24</sup>

Other laws which affect prices on goods we buy are those which impose special taxes on chain stores. At least 22 states now have such laws, and legislatures in many other states have considered, and will consider, similar legislation. A bill for a federal tax on chains has been proposed in Congress.

A tax on chain stores, like the protective tariff, is not levied for the purpose of raising revenue, but rather for the purpose of eliminating competition. It is advocated by independent stores which find it difficult to compete with the lower prices of the chains. By forcing chain stores to pay higher taxes it is expected that their prices may have to be raised, and the establishment of chain stores will be discouraged.

How will taxes on chain stores affect consumers? In some states, where taxes are especially high, chain dealers have decreased in number. Sometimes the form of business organization is changed. Petroleum distributors have, for example, leased their gas stations to independent operators. If the taxes are to accomplish their purpose of discouraging chain store development, there are several questions which consumers should consider in deciding whether they will favor or oppose such taxes.

First, we must ask whether chain stores have resulted in better quality and lower prices to the consumer. It seems that they must have brought about lower prices, for that is the chief reason why independent merchants want them to be subject to special taxes. One large grocery chain is one of the leaders in using grade labeling of canned products, and in that way is

<sup>24</sup> For an interesting, brief discussion of chain stores, see Dallas, Helen, *Chain Stores—Pro and Con* (for the Institute of Consumer Education), Public Affairs Committee, 1940.



making it easier for the consumer to get good quality. If chain stores are resulting in benefits to the consumer, do we want them to be handicapped by special tax laws?

The consumer must also consider whether there are sound reasons for the arguments that an unrestrained development of chain stores might result in the elimination of the independent merchant. Or will it, instead, force him to use more modern methods in order to become a more efficient competitor? May chains in the fields of variety stores (5 and 10 cent stores), shoe stores, groceries, and others, possibly develop into monopolies? If they should tend to monopolize the field can that be prevented by the anti-trust laws? How much money do chain stores really "take out of the community"? The independent merchant must also send money out of the community to pay the outside wholesale dealer, and to transportation agencies, and to the producer. Insofar as the consumer can save money by buying from chains, he has that much more money to keep in the community, or to spend for other things.

Finally, we must remember that chain store development represents the present trend toward mass distribution. All new methods in business have to face the opposition of older methods which might be displaced by the new. Under free and fair competition it is assumed that in the long run the methods that are most efficient and that can offer the most advantages to the consumer will win out. We must ask whether the government should be primarily concerned with trying to maintain conditions of free competition, or whether it should limit that competition by putting restrictions on one method of business organization in favor of another.

We have often heard it said that "business" is opposed to government regulation. The example of taxes on chain stores is a good illustration of the fact that "business" does not always oppose action by the government. The group of business men represented by the independent merchant is very much in

favor of government regulation of their competitors, while the group of business men interested in the chains opposes such regulation. This is to be expected. And when consumers become as fully aware of consumer interests as business men are of their business interests the consumer interest will become a major force in government action.

#### LAWS RESTRICTING TRADE BETWEEN STATES

We have seen that there have been various kinds of laws passed in recent years which tend to restrict competition, and thus to affect the prices which we pay. Among these laws are those which attempt to prevent within one state, the sale of products from another state. The Constitution of the United States forbids state governments from levying tariffs on products from other states. Because of this constitutional provision, states which want to prevent products from other states from competing with their own products have to use roundabout methods. A favorite is the misuse of quarantine regulations.

A state has the right to prevent the transportation into its territory of any products which might carry any plant disease. Since 1915 Florida has "quarantined" citrus fruits from California, officially for the purpose of preventing the introduction of brown rot, a disease which affects those fruits. But since California fruits are free from brown rot, the official purpose is not the real one. In 1932 the Florida quarantine was changed to allow the importation from California of lemons at all times, and to permit the importation of oranges from California between May 1st and October 1st. During those months no oranges are ripening in Florida <sup>25</sup>

This is just one example of the many laws by which states have set up barriers against products from other states in order to favor local producers. The policy is short-sighted, even from the point of view of those producers. For when this type of

<sup>25</sup> Twentieth Century Fund, *op cit*, pp 279-280

law gets started, states whose products are excluded pass laws to get even. Thus California retaliates by forbidding the importation of fruit from Florida. If a dairy state passes a law to decrease the sale of margarine as a substitute for butter within that state, the dairy industry may be benefited for a while. But when states producing cottonseed oil, which is used as a substitute for butter, retaliate by refusing to buy butter from the dairy state, the dairy industry will be the loser. And throughout the whole process the consumer pays.

#### SUMMARY

We all want a higher standard of living. We know that the amount of goods which we can buy depends on the prices we have to pay. In order that we might have all of the things we need, and many of the things we would like and would enjoy, we want lower prices. In an attempt to discover whether lower prices are possible we have tried to find out just what we pay for, and we have considered many factors which add to the cost of the commodities we use.

We find that when we buy any product, a part of our consumer's dollar goes to the producers to pay for the costs of production. A part goes to wholesalers, retailers, transportation agencies, advertising agencies, to pay for the costs of distribution. A part goes to profits that may have resulted for the producers and the distributors. A part goes into taxes to help pay the costs of running the government, and to pay for the "free" services provided us by the government.

We have considered many factors which add to the prices we have to pay. We find that duplication of effort in wasteful competition may increase prices. We find an even greater danger in monopoly, in price fixing and in trade restrictions. We see that prices are increased because of extra services which consumers want. And we also see that many consumers have to pay for such services even though they do not need them.



calculating true interest rates see the U. S. Office of Education bulletin, "Credit Problems of Families," available from the Government Printing Office for 20 cents.)

4. Find specific illustrations not referred to in the text of prices that are affected by competition, by monopoly.

5. Read and report on the Public Affairs Pamphlets: "State Trade Walls", "Chain Stores—Pro and Con"; and "59¢ of your \$1."

6. Find out what sales taxes are paid in your state and community. What license fees are required for restaurants, grocery stores, meat markets?

7. Give an example from your own knowledge and experience of not getting your money's worth. Was it your own fault?

8. Compare prices of packaged goods in your locality with the prices of similar products in bulk. What are the reasons for this difference? Compare prices of goods sold in small and large quantities.

9. Ask the manager or a representative of a local store to discuss such subjects as charge accounts and returned merchandise.

10. List the number of services (delivery, charge accounts, free alterations, free parking, and so on) available from retail stores in your locality. Check those that (a) you think are so necessary that you are willing to have their cost included in the price of the goods you buy, and (b) those you think you should not have to pay for, but should be paid for only as extra charges by those who use the extra service.

11. If possible, arrange for visits to producers, factories, wholesale houses, and retail stores to find out how many steps in the production of goods must be paid for and included in prices paid by consumers.

[illegible]

There has been a great deal of criticism of advertising in recent years. Because of this criticism advertisers have replied by criticising their critics, and by arguing that advertising is necessary for prosperity, and for an increasing standard of living. There are many good arguments on both sides of the question, and there are many people who take part in the argument who recognize that there is something to be said on the other side. Few of its critics would want to see advertising abolished altogether. They want to eliminate the bad advertising. But those who defend advertising want to eliminate bad advertising too. So thus far both sides seem to agree. They disagree on just what advertising is good and what is bad. They also disagree on how much advertising is desirable.

108

more goods rather than on increasing the demand for those goods. Frequently this demand for specific products preceded their manufacture. If a man needed a pair of shoes, he went to the shoemaker, described the kind of shoes he wanted, had his correct size determined, and put in his order for one or two pairs. Contrast this with the situation today. If we need shoes we go to a store to buy them. We want them immediately. We want to be able to choose the pair we like best from a wide variety. The store must have many sizes in each style, so that we can find our sizes in the style we select. All of these shoes must be made before the consumer expresses his wants. The manufacturer must make every effort to decide in advance what the consumer will like. He must manufacture large quantities in order to take advantage of the economies of mass production. He must run the risk of making more products than he can sell. And so he uses advertising to create a demand for those products.

Of course it is true that the manufacturers of some products have a much easier task in determining in advance how many of their products consumers will buy. There is much more risk in the manufacture of style merchandise than there is in such necessary standard food products as, for example, flour and sugar. But even in the manufacture of food products there is uncertainty. People may buy prunes instead of oranges. And people may buy one manufacturer's brand of canned foods instead of that of another. Thus each manufacturer attempts to increase the demand for his own products.

Advertising as we know it today was not always considered respectable. At first the only kind of advertising which was done by reputable dealers was to announce the location of their places of business or to inform customers that they had new merchandise for sale. Many of them regarded any other kind of advertising as in poor taste. The earliest advertising on any

large scale was that of patent medicines and of quack cures.<sup>1</sup> The dealers in more worth-while products hesitated to follow that example.

An illustration of the kind of modest advertising used by reliable companies over a century ago is one, appearing in 1817, which read. "Soap and candle manufactory has for sale on the best terms a constant supply of soap, mould and dipt candles of the first quality."<sup>2</sup> The company which issued that advertising is still making, advertising, and selling soap, but its current advertisements are not limited to describing the product as first quality. Now it would have the consumer believe that the use of a particular brand of soap will result in smooth skins, beautiful complexions, and even romance.

During the past hundred years the kind of advertising has changed, and the amount has increased many times. We cannot avoid advertising. It reaches us from billboards along streets and highways, from advertising cards on street-cars and subways. It appeals to us in all of our newspapers and nearly all of our magazines. It comes through the mail, and by folders delivered at our doors. Radio programs are interrupted by sales talks for certain products. And on clear days we may even look up at the sky to see an airplane spelling out an ad in smoke, or trailing behind it huge letters advertising something. Advertising has become respectable, even if it is not always respected.

All of this advertising costs a great deal. The amount of money spent on advertising is estimated at two billion dollars a year.<sup>3</sup> This amount is a part of the cost of distribution, and is paid for by the consumer. The consumer is therefore interested in advertising because he has to pay for it. In some cases, however, even though he must pay, the net result is a saving of money. This is possible largely because advertising may re-

<sup>1</sup> Kenner, H. J., *The Fight for Truth in Advertising*, N. Y., Round Table Press, 1936, p. 3

<sup>2</sup> Woodward, Helen, *It's an Art*, N. Y., Harcourt Brace, 1938, p. 18

<sup>3</sup> Twentieth Century Fund, *op. cit.*, p. 226



sult in a great increase in the amount of a certain product which is purchased. This increased buying makes possible the manufacture of that product on a larger scale, which may result in lowering the cost of production on each single item. Because of that lowered cost of production the retail price may be reduced. In such a case the consumer is able to save money as a result of advertising, even though he must pay for it himself.

Not all advertising produces this kind of saving for the consumer. In many cases increased sales do not end in lower prices. Instead they may result only in increased profits. Many consumers buy advertised brands at a much higher price than they would have to pay for unadvertised goods of equal quality. This is particularly true in the field of drugs and cosmetics, where a large proportion of the costs go into advertising.<sup>4</sup> A study of eleven different kinds of packaged foods showed that the advertised, branded products cost from 4 per cent to 150 per cent more than unadvertised bulk goods of the same quality.<sup>5</sup>

Some advertising creates an increase in the total amount of goods bought. Much of it, however, does not try to increase the total amount, but rather to influence the consumer to change from one brand to another by persuading him that one certain brand is the best. Look through any magazine and you will find that the majority of the advertising is an attempt to

<sup>4</sup> The State of Maine published the following information about the cost of ingredients, cost of container, and selling price of six brands of face powder

Brand	Cost of Ingredients	Cost of Container	Selling Price
A	\$0 07	\$0 03	\$0 75
B	0 23	0 16	3 00
C	0 04	0 03	0 60
D	0 05	0 05	0 85
E	0 07	0 05	0 75
F	0 03	0 05	1.00

From Reid, *op cit*, p 328

<sup>5</sup> Wilcox, Clair, "Brand Names, Quality, and Price," *Annals of the American Academy of Political and Social Science*, May, 1934, pp 84-85.

show that one certain brand is preferable. Each brand claims to be the best, but obviously they can't all be right. Frequently manufacturers of, for example, canned goods, know that their own brand tastes no different from that of their competitors, and that if they are to build up their own sales they must do it by advertising.

Sometimes this kind of advertising has surprising results. Not long ago, over a radio program advertising a certain kind of coffee, there was broadcast an act to which a great many people objected. The coffee company received a flood of letters of protest, and of course apologized and discontinued that kind of program. But a rival coffee company which had nothing to do with the broadcast, also received letters of protest, and so many telephone calls objecting to the program that it had to put on six extra telephone operators to handle the complaints. It was a discouraging experience for the company paying for the broadcast to discover that many of the listeners didn't even know what coffee was being advertised.<sup>6</sup>

But cost is not the only reason for the consumer's interest in advertising. He is perhaps even more interested in whether advertising helps him to get better quality products, and to get those which will be best suited to his needs. Another very important question is the extent to which advertising influences the way he spends his money. Necessities are usually not advertised as much as luxuries, because people must buy necessities anyway, while the sale of luxuries depends on the persuasion and stimulation of advertising. How many of us have after reading a particularly appealing advertisement, purchased the article advertised, and later regretted the purchase, not because the article failed to come up to expectations but because we needed something else more? To the family of the typical consumer, with \$22.00 a week to spend, such a mistake may be serious.

<sup>6</sup> Woodward, *op cit*, p 341

## HOW ADVERTISING CAN HELP US

We have already seen that some advertising helps us by making lower prices possible. We must recognize, however, that some advertising has the opposite effect. In addition to price reduction, there are other ways in which advertising may be of value to consumers

Some advertising, especially that of retail merchants, is useful simply because it tells us where we can buy certain products. It can inform us that a new grocery store is opening at a near-by corner, that a supply of fresh vegetables is available, that there will be a special sale. It can give us the telephone number of the retail dealer so that we can save time in ordering. Advertising is often the only way by which we can learn that a famous singer is to give a concert on a certain night, or what movies are on at the different theaters in town. The straight information of this sort is one kind of advertising which is necessary and helpful. It is local advertising of local events.

Advertising can tell us about new products that are on the market, of new improvements on familiar products, and of new uses for old products. A new kind of fiber is made out of coal, air, and water, and is called nylon. Through advertising we learn about this new product and its qualities and characteristics. Scientists try to work out a safer kind of headlight for automobiles, lights which are bright enough to light the road ahead yet which can be adjusted so they will not cast a blinding glare at an approaching motorist. Advertising tells us that these improved lights are available on new cars. We can learn new ways to use familiar products. The advertisements for a brand of gelatin may be of real help to the housewife when they include recipes for new dishes which she can make. Advertising of this kind has an educational value. It can help the consumer not only to be a better buyer, but a better user as

well. Insofar as advertising gives truthful information, it is in the consumer's interest.

Many people believe that advertising performs one other valuable service to the consumer—that of making him want more things. If he can be persuaded to buy more new products, more modern appliances, more conveniences and luxuries, he will supposedly achieve a higher standard of living. If he can't afford them, he is supposed to be persuaded to become more ambitious, to work harder, so that he will be able to get them later.

This factor in advertising has two sides, and deserves careful consideration. Probably most of us agree that advertising makes us want more things, and that if we could have those things we would have a higher standard of living. And we all agree that a higher standard of living is desirable. But before we credit advertising with helping the consumer by making him want a higher standard of living, we must ask ourselves several questions. Do we need advertising to convince us that we would like to have a higher standard? If the typical consumer must spend all of his money on things needed by himself and his family, what effect does this kind of advertising have on him? It cannot influence him to spend more, because he has no more to spend. It may cause him to choose one product rather than another. Automobiles are widely advertised. The consumer may be persuaded to buy an automobile instead of buying a house. Does that really raise his standard of living? And what is the effect of increasing the wants and desires of those consumers who cannot afford the things they need?

#### HOW ADVERTISING MAY INJURE US

Advertising may help us to make wise choices, it may also persuade us to make unwise ones. If it does, it is harmful. But unwise choices cannot be blamed entirely on the advertising,

especially if the advertising is honest. Even honest advertising may lead to extravagant and foolish buying.

Advertising is injurious to the consumer if it persuades him to buy something that is of no value to him. It is far worse if it persuades him to buy a product that is harmful, or that may be harmful under certain circumstances. Numerous books and articles have been written in recent years which give many illustrations of the advertising of harmful products.<sup>7</sup> Many of the examples are in the field of drugs and cosmetics. Especially dangerous is the advertising of patent or proprietary medicines. These are sometimes harmful in themselves. More often they are dangerous to health because, although useless, they are represented as being able to cure various ailments. A person who believes in the value of the medicine may be seriously in need of medical care, and may postpone getting that care until it is too late because of his faith in the medicine. Other proprietary medicines are harmless to some persons but harmful to others. There are many which may cause little damage if taken only once or twice, but which are definitely harmful if taken habitually. Some products which are widely advertised as aids to health may, under certain circumstances, cause illness or even death. The American Medical Association has records of countless cases of the serious consequences which have resulted from the use by untrained consumers, without medical advice, of widely advertised remedies.

Needless to say, no one publicly defends the practice of advertising harmful products. But later on, when we consider the attempts to pass laws which would prevent the advertising of such products, or compel the advertisements to tell the truth about them, we shall see that there has been much opposition to those laws. We shall attempt to see whether our present laws offer sufficient protection to the consumer, and we shall discuss other methods by which he can be protected.

<sup>7</sup> See references, pages 319-328

The advertising of harmful products is dangerous in itself, but its danger lies in the fact that it is not completely honest advertising. Advertisements which tell the whole truth would have to tell that the product is harmful, and therefore would prevent rather than encourage sales. What about the advertising of good products which are of real value to the consumer? Does that kind of advertising have any injurious effects? Is it always truthful, or is the advertising of useful products sometimes deceptive?

All good business men as well as all interested consumers object to fraudulent advertising, but there is real disagreement as to just what fraud or deception is. A generation or two ago there were many kinds of advertising schemes which were so plainly deceptive that they could not be used today. An advertisement would, for example, inform the consumer that if he sent in 25 cents he would receive a "complete sewing machine." Those who sent in the money would receive a needle. In this case we all agree that there was an attempt to deceive the consumer. The buyer did, however, receive something useful for his money, although the product he received was certainly not worth 25 cents. Perhaps the consumer should have known that he could not get a sewing machine for 25 cents.

This kind of advertising does not go on, in the same way, today. But there are other kinds which have a similar effect. Listen to the radio, or look through a magazine, and notice the advertising of cosmetics. Note that by clever phrasing, pretty pictures, and story cartoons, an unsuspecting consumer may be led to believe that the use of a certain face powder or soap will give her beauty, will make her popular, will even help her to win a desirable husband. If she pays one, two, or three dollars for the product advertised, is she paying that much money for the product itself, or is she paying it because she hopes it will bring the results pictured in the advertisement?

Notice how advertisements of various brands of breakfast

food try to give the impression that those who eat those brands will become athletic champions, or will gain health, pep, and vitality. Most of these advertised cereals cost many times as much as the same food would cost in an equally valuable form without the elaborate packaging and advertising. Does the consumer pay that extra amount for the food itself, or in the hope that its use will result in health and strength? Perhaps, just as the consumer should have known that he couldn't buy a sewing machine for 25 cents, he should know that he can't buy popularity or romance in bottles or jars, and that he can't buy health or athletic excellence in packages.

It is not necessary here to give examples of various ways in which advertisements fail to give complete information on quality, or in which they lead the consumer to believe things which are not true. It is much more interesting to find those illustrations in newspapers and magazines and from radio programs. Consider whether the important qualities are described fully, or whether there is a surplus of adjectives like "remarkable," "exceptional," "superb," and "best." When statements in advertisements say that a product will outwear any other under similar conditions, we wonder whether such a claim can be proved. If several brands make the same claim they cannot all be true.

Much advertising appeals to the consumer's desire to get good quality, although the descriptions of quality are often incomplete and exaggerated. Much advertising also appeals to the consumer's desire for economy and emphasizes the low cost of the product advertised. Other advertising appeals to desires other than those for quality and economy and often these appeals are unreasonable and sometimes undesirable.

This last type of advertising often attempts to create a desire to "keep up with the Jones," or to make a good impression. It implies that the ownership and use of a particular product will raise one's standing in the community. For example, it

gives the idea that ownership of a certain kind of automobile will show that the owner is a "leading citizen." If we stop to think of the leading citizens we know, we realize that they own all kinds of automobiles, that some of them even have no automobiles. A good sense of values tells us that the ownership of a car is no real indication of the quality of one's citizenship, or of his leadership in the community. If it is necessary for a man to drive an expensive car in order to demonstrate that he is a "leading citizen," then we wonder whether he has any real accomplishments, for if he had, his place in the community would be recognized without the automobile.

It is hard to estimate how much effect this kind of advertising has on most of those who read it. Insofar as it is taken seriously, it helps to make readers dissatisfied. Worse than that, it tends to develop the false idea that leadership can be measured by things possessed, rather than by services performed. It appeals to a feeling of snobbishness which should not be a part of our American ideal. It is injurious, not because it encourages people to want better things, but because it encourages them to think that the ownership of such things labels them as leading citizens. The effects of such advertising practices may be limited to the development of undesirable attitudes, but such attitudes may result in unwise spending.

Some advertising tries to develop in consumers a fear of various illnesses or "plagues" which the advertised products will prevent or cure. A magazine published for advertisers listed many such plagues as the "inventions" of the advertisers. Among them are acid indigestion, ashtray breath, athlete's foot, bankrupt nerves, cosmetic skin, dishpan hands, morning mouth, paralyzed pores, pink toothbrush, and so on.<sup>8</sup> If advertising can convince us that we are in danger from some ailment, imaginary or exaggerated, it has a better chance of selling something which

<sup>8</sup> *Printers' Ink*, Oct. 11, 1934. Quoted in Harding, T. S., *The Popular Practice of Fraud*, N. Y., Longmans, Green & Co., 1935, p. 90.



is supposed to cure or prevent the ailment. And so advertisers sometimes appeal to fear. In fairness to the advertisers it should be noted that some of the most vigorous critics of advertising also appeal to fear by exaggerating the great dangers of using certain advertised products. Many of them may in fact be dangerous, but sometimes the critics, in their enthusiasm for criticisms, overlook some of the facts. And so the advertisers criticise the critics, and both frighten the consumer.

In addition to the advertisements that appeal to snobbishness and those that appeal to fear, there are some that are merely silly, and there are others that are in bad taste. Why do we have advertising of this kind? It is not because the advertisers are snobbish, or afraid, or silly, or vulgar. It is because their job is to produce advertising which will result in sales. To them there is only one basis on which to tell a good advertisement from a bad one. The good ones get results. No advertiser could afford to continue to use an advertisement to which consumers objected, because sales would drop. And advertising will probably continue to have objectionable features as long as consumers fail to make their disapproval known by refusing to buy.

#### GOOD AND BAD ADVERTISING

There is some advertising which is carried on chiefly for the purpose of building good will toward the manufacturer of goods. This advertising sometimes does not directly ask us to buy any product, but it is hoped that the good will which it develops will result in increased sales. Many of the very good radio programs, symphony orchestra and opera broadcasts, are sponsored by companies desiring to build good will in this manner. A drug company pays for advertising space in magazines and fills it—not with claims of excellence for certain products—but with common-sense rules of health, and with the sound advice to readers to see a doctor rather than attempt

to buy medicine for themselves. Another drug company several years ago ran advertisements that were appeals for world peace. These did not mention any products for sale. An automobile company gave excellent safety talks over the radio, and distributed an extremely useful booklet on safe driving. A personal loan company issues valuable booklets on budgeting and wise buying, and even charges a few cents for the booklets. A life insurance company advertises by giving sound advice on matters of health. Such advertising often has another value in addition to developing good will and increasing business. It is to the advantage of a loan company to have the borrower pay back his loan regularly. Therefore if pamphlets on making budgets and buying food economically are helpful to the borrower, they also help the loan company. The health and long life of its patrons are to the advantage of a life insurance company. But this advantage to the company does not detract from the value of such forms of advertising to the consumer. Much of this good-will advertising has real educational or cultural value.

Aside from such factors as the privilege of hearing good programs and reading worthwhile advertisements of educational value, which the consumer appreciates, and aside from the elimination of objectionable advertising methods which have been discussed, what does the consumer really want from advertising? Briefly, he wants the kind of advertising which can assist him to spend his money in such a way that he can have the greatest possible amount of the things he needs. Advertising which helps us to be better buyers of goods and services is good advertising from the consumer's point of view. If advertising is to accomplish that purpose it should give information on two factors, price and quality. How well does advertising give information on these factors?

With regard to price, there is not much difficulty. The selling price of goods is one fact usually available to the buyer.

Consumers soon recognize that when automobiles are advertised nationally, the advertisement lists the price at the factory, and it usually quotes the price of the least expensive model. The consumer is most often misled about the real price of goods by the way in which sellers express the carrying charges on goods purchased by installment payments.

The price of a single article is not a sufficient basis for a wise choice. The prospective buyer should also know the cost of similar articles, in order that he might compare prices and secure the most for his money. But comparative prices are not often advertised, primarily because such advertising is frowned upon by business. Whenever one merchant advertises goods for sale at a lower price than that of his competitors, business organizations exert all possible pressure to get him to stop such advertising, because it is regarded as unfair competition. Reduced prices on damaged goods, or at a clearance sale, or for other similar reasons are, of course, permitted. It is also good form to advertise "at lowest prices" or "prices slashed," because competitors can advertise the same way. But when a store quotes prices in an advertisement, and states that those prices are a certain per cent lower than prices elsewhere, business organizations do their best to make that store change its methods.

Usually they are successful. In 1936 a handbill was distributed in New Orleans by a chain store. The headline of the handbill read "Compare and Save 29%." Below the headline were listed prices of 15 well-advertised products, and opposite this list was another list of 15 similar products sold by the chain store. The prices quoted showed that the average saving on the chain store products was 29 per cent. The quality of those products was guaranteed to equal that of the more expensive brands. This method of advertising was startling. The president of the Associated Grocery Manufacturers of America said it was unfair. The president of the chain dis-

claimed any responsibility for the handbill, and instructed his managers not to engage in such advertising in the future.<sup>9</sup>

A few stores hold out against the pressure to prevent such price comparisons in their advertising. One of the largest stores in New York City, which sold only for cash, consistently advertised that its policy was to sell merchandise at a certain per cent lower than any competitor that did not also sell for cash only. For years the local Better Business Bureau attempted to stop such advertising, but in this case the store won out.<sup>10</sup>

The real difficulty for the consumer depending on advertisements is to find honest information regarding quality. The consumer wants advertising to be both honest and complete. If he examines advertising carefully he realizes that an advertisement can be truthful in the sense that it contains no direct falsehoods, and at the same time misleading, either because it fails to give all of the facts or because it gives an impression that is not accurate. Advertising that fails to give a complete and accurate description of the products advertised is far too prevalent. It is so common that we are surprised at the appearance of advertisements like the one which appeared in the bird department of a Chicago store stating: "Some of these canaries may develop into singers."<sup>11</sup> As a consequence, alert consumers take the claims made by advertisers with several grains of salt.

What about the advertisers themselves? They are even more fully aware of the situation than the consumer, and sometimes they admit it. An advertising man of long experience gives an account of an occasion on which a well-known canning factory served six brands of pork and beans. No one present could

<sup>9</sup> Reid, *op cit*, pp 443-445 (from *Time*, Jan 18, 1937, and *Tide*, Jan 1937)

<sup>10</sup> Kenner, H J, *op cit*, pp 201-217

<sup>11</sup> Institute of Consumer Education, *News Letter*, Vol II, No 7, Apr 1940, p 4

decide which of the six was the brand made by the factory.<sup>12</sup> Yet they had to advertise their brand as if it had distinguishing qualities which made it preferable to other brands. The same writer gives a good insight into some of the reasons why there is opposition to the fixing of standards which must be met by all manufactured goods in certain classes. He tells of the time when he was asked to advertise evaporated milk, which had to meet standards required by the government. He states the difficulty of advertising standard products thus: "One cannot establish or claim an advantage on natural or standard products."<sup>13</sup> Another advertising man writes that "There is not much difference in products of competitive companies in the same field; but advertising can and does lift many a product above that common level and give it real distinction and character."<sup>14</sup> The consumer might ask whether this "distinction and character" is real or imaginary.

Why, then, does advertising put forth exaggerated claims? Some defenders of advertising argue that the consumer likes to be fooled, that he likes to believe that he has purchased something unusual, even though he knows he has not. Others believe that anything that encourages consumers to buy is of value because increased buying is supposed to result in increased prosperity. Therefore, exaggeration is held to be justifiable because it is believed that consumers would buy less if the ads told the whole truth and nothing but the truth.

Other advertisers are more outspoken. One states that "Advertising has only one mission, and that is, profit to the business that pays for space or time" and that advertising is "an extremely mercenary art, whose chief business is the extraction

<sup>12</sup> Hopkins, Claude C, *My Life in Advertising*, Harper, N Y, 1927, pp 101-102

<sup>13</sup> *Ibid*, p 103

<sup>14</sup> Fehlman, F E, "Does Advertising Pay During a Depression?" *Advertising and Selling*, May 24, 1934, p 44

of money from the pockets of those who have money."<sup>15</sup> Another prominent advertising man who was also a member of Congress stated that advertising "has proved its power to get on and to push businesses on. It has not yet proved its right to be honored."<sup>16</sup> A realistic description of the job of an advertising agent follows: "your agent is in a driving, feverish business. He can't be fairminded to save his neck. He hasn't time, he doesn't know how, and he can't afford it. He's got to see one side of a question, the client's side. If he is judiciously minded he ought to be a judge or an editor, not an advertising agent. He is compelled to see the consumer as one who has to be brought into your camp by hook or by crook. He studies the consumer to see how he can be influenced in your favor, not primarily to benefit the consumer himself."<sup>17</sup>

Some advertisers and business men have become very much concerned with the development among consumers of doubts and criticisms of current advertising practices. They have objected to school textbooks and courses which they believe present an unfair criticism of advertising. Such attacks are, of course, justified if the books to which they refer fail to present an honest picture. But if the truth about advertising has been presented, the advertisers should have no ground for objection. Other business men and advertisers have recognized this. In fact, while it is only recently that consumers have become very much interested in the kind of advertising used to persuade them to spend their money, the better business men have long exerted much effort to enforce honest and fair advertising practices. They have recognized that if they are trying to sell good quality, honestly-advertised products, their business can be seriously damaged by bad advertising on the part of others. The business man selling good products suffers from such ad-

<sup>15</sup> Derum, J P, "Must Advertising Wear a Halo?" *Advertising and Selling*, Sept 14, 1933, p 14

<sup>16</sup> Bruce Barton, quoted in *Advertising and Selling*, July 16, 1936, p 5

<sup>17</sup> *Printers' Ink*, June 14, 1934, p 52

vertising in two ways. Consumers may refuse to buy the goods which he offers, because they prefer to buy competing products for which many impossible claims are made. Then, when the consumer finds that he cannot believe all the claims made in the advertisements, he realizes that he has been fooled, and therefore refuses to believe the honest as well as the dishonest claims because he has no way of distinguishing one from the other.

Many business men, therefore, believe that the best way to answer consumer criticisms of advertising is to make advertising better. One Better Business Bureau presents its arguments in the following words:

"In these days of consumer agitation, there is a great hue and cry in the advertising world—much flowery talk and many fine words about the necessity for advertising to be 'sold' to the public as an institution, as an economic boon to humanity. Why?

"Nothing can sell advertising to the public like good advertising. Do you think that any one who has responded to an advertisement and had a pleasant experience needs to be 'sold'? Do you think that any person will debate the economics of advertising if that person is able to get something he wants, something that measures up to everything said about it, at a price he or she is willing to pay?

"No—all the selling effort in the world will not be convincing as long as there are people scattered here and there throughout the world who have had confidence destroyed by unpleasant experiences—people who may ultimately get together and discuss their bad treatment. Such people—those who harbor bitter memories—are the ones from which are formed the nuclei of discontented consumer groups. . . .

"The excited concern of advertising men in the face of the growing consumer shadow reminds one of small boys in the dark, clinging to each other and whispering of the necessity

for bravery instead of actually seeking the cause of their fear. . . .

"If the day ever comes when advertising men will devote all the energy now devoted to convincing themselves of the necessity for convincing others of advertising's rightful place in the world, to active condemnation and elimination of those who abuse advertising and dismay consumers, they no longer will have the need to worry.

"Advertising tells its own story—it's up to the copy writer to determine whether that story will be good or bad. Good advertising can sell itself without speeches and public clamor."<sup>18</sup>

#### SUMMARY

Advertising is necessary, both in the interest of business and in the interest of consumers. Much of our present advertising helps the consumer by giving him assistance in becoming a better buyer, and by creating the volume of sales necessary for lower prices. Much advertising, however, puts the consumer at a disadvantage by increasing the cost of products he buys and by misleading him as to their quality. The influence of advertising on consumer welfare is so great that many consumers have begun to give serious attention to the costs and effects of advertising. They are beginning to demand the elimination of fraudulent and objectionable advertising, by government action if necessary. They are going one step further to demand advertising which will provide them with more complete information about the goods they buy.

In this respect, the problem of advertising is closely related to the development of standards and the use of grade labeling. Competitive advertising of branded and trade-marked products would become less important if grade labeling of those products

<sup>18</sup> St. Louis Better Business Bureau Bulletin, Feb. 14, 1940. Quoted in the Institute for Consumer Education, *News Letter*, Vol. 2, No. 6, March, 1940, p. 8.



were generally used. On the other hand, a few manufacturers have found that complete and accurate information and grading is in itself a good advertisement, and that sales have increased when such information has been made available to consumers.

Advertising can be improved, and is being improved in some fields. Aside from governmental action to prevent fraudulent and misleading advertising, perhaps the greatest responsibility for bringing about advertising practices more useful to consumers lies with consumers themselves. When the majority of consumers become aware of the ways in which advertising affects their costs of living and the ways by which it influences their choices and their purchases, when they learn to what extent advertising claims are accurate and adequate, and when they demand the kind of information which would be to their advantage, advertising will have to satisfy their demands, in order to be effective in selling goods. In later chapters we shall see how consumers, how business, and how the government are trying to meet the problems of advertising as they relate to the interests of the consumer.

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#### SUGGESTED ACTIVITIES

1. What does the statement, "One cannot establish or claim an advantage on natural or standard products," mean? How would this factor affect advertising of canned goods if government grades were required on the labels? How does it affect the advertising of milk? Of butter? Bring in examples of advertisements for the latter products which emphasize the importance of eating more of the products rather than of buying a particular brand.
2. Collect examples of advertisements from newspapers and magazines. Arrange an exhibit of these advertisements show-

ing as many important facts about them as you can. Consider the following points, and as many others as you can think of (a) How many give scientific facts? (b) How many give pseudo-scientific facts? (c) How many appeal to humor, fear, emotions, snobbery, thrift? (d) How many are misleading? How many might be misleading unless read very carefully? (e) How many show a picture of some subject which has no relation to the article advertised? (f) How many refer to government tests or standards? (g) How many might persuade a person to buy something he doesn't really need? (h) How many emphasize the value of a particular brand?

3 Make a scrap book or posters showing good and bad advertisements, and list briefly under each the reasons why it is good or bad.

4. Select one of the advertisements you have collected. Cross out with black pencil all the phrases that do not give information of value to the consumer, and with a red pencil any phrases that may be misleading. Consider whether the advertisement, with these parts eliminated, would be effective enough to persuade the consumer to buy.

5. Write what you consider an ideal advertisement for some product. Try it out on members of the class. Is it an advertisement that would be helpful to the consumer in buying? Is it interesting and attractive enough to help sell the product?

6. Divide into committees to listen to and analyze the advertising on different radio programs, considering the same points already brought out with regard to other forms of advertising. Report to the class.

7 How does advertising affect your own purchases? Give an example of some good value which you obtained as a result of advertising. Give another of an unwise purchase made as a result of an advertising appeal. How many of the recent purchases that you have made were influenced by advertising? Of the advertisements which have been collected by the class,

which ones are you more likely to read, and which do you tend to skip over?

8. Debate. "Resolved, that advertising results in a higher standard of living."

9. Write an article for the school paper on what consumers can do to raise the level of advertising.



and the cost. But because some of the problems are different, it is convenient to give them some special attention.

#### SERVICES OF UTILITIES

About 6 per cent of the total amount of money spent by American consumers goes to pay for the services provided by public utilities<sup>1</sup> This amount is used chiefly to pay for electricity, gas, transportation, water, and telephone services. With the exception of water supply, most of these utilities are owned and operated by private companies. Ninety per cent of the water supply is furnished through municipally-owned systems.

In our discussion of monopolies, we gave the example of public utility industries as an illustration of legal monopolies. We saw that, while it seemed to be in the public interest to have only one company in a city provide the telephone service, or street-car service, or furnish gas and electricity, there could be a danger of a single company taking advantage of the fact that it had no competitors and charging the consumer rates that would be too high. Therefore, in order to prevent the abuse of such legal monopolies, the laws offer certain protection to the consumer.

Public utilities are given their monopolies by means of franchises, usually granted by municipal or state governments. These franchises provide certain restrictions with regard to the rates that may be charged. Public commissions elected by the people or appointed by elected officers, have been created and charged with the duty of regulating the rates of the utility companies. If the companies find that the rates set by the commissions are unfair, they have the right to appeal to the courts. If the consumers find the rates unfair they can also appeal to the courts or attempt to elect new commissions.

The problem of regulating public utilities has proved to be

<sup>1</sup> Article by John Bauer in *Encyclopedia of the Social Sciences*, Vol. XIII, Macmillan, 1934, p. 677

a complicated one. It is easy to see the difference in the situation of the consumer when he is buying electric current and when he is buying shoes. If he needs a pair of shoes, but finds the price in one store too high, he can go to several others. But if he thinks his electricity bill is too high, there is nothing which he as an individual can do. If he thinks the telephone rates are too high, he must choose between paying them or going without a telephone. The consumer is a little better off with regard to street railway systems, for if the rates become too high he may use that form of transportation less, and walk or drive a car, or even take a taxi instead. In some places consumers have decided that they can be served better by utilities owned by the public, usually the city government. There are many publicly-owned electric plants throughout the United States, some publicly-owned subway and street car systems, and a few municipally-owned gas systems. When the city owns the electric light plant, the consumer pays his light bill to the city, just as he pays his water bill.

Consumers in rural areas have sought a different method of providing themselves with some utility services. Private telephone companies were not very eager to build telephone lines out into the country to serve scattered farmers. But farmers wanted telephone service, and decided to cooperate with each other to form mutual telephone companies, owned by the farmers cooperatively. They put up their own lines and installed telephones on their farms, and then made contracts with the nearby privately-owned telephone companies to provide them with outside telephone connections. More recently, consumers in rural areas have organized cooperatives to supply themselves with electricity. The success of consumers in providing themselves with such utility services as telephones and electricity through cooperative organizations is discussed in Chapters X and XI.

The problem of the best method of providing the services of

public utilities is an important one, and one about which there has been much discussion and argument. Many believe that the ownership and control of necessary public utilities should be in the hands of the government. Others vigorously oppose such a method. There is much more agreement on the principle that, if the government does not own the utilities, it must have the power to regulate them. But even here there is the serious question of how much regulation is desirable. It is of great importance that the regulation of utilities should be carried out in the interest of the consumer. But the consumer is often at a disadvantage in making his interests known.

The consumer's position can be illustrated in the field of the distribution of electric power. Electricity is furnished, not only to the ordinary consumer to light his home and run his vacuum cleaner, but to large industrial plants as well. These industrial plants use electricity not only for light, but for power to run their machines. The industries, however, will not buy electricity from the utility company unless they get it at very low rates. If rates are too high, an industry using a large amount of power may build its own plant and furnish its own electricity, or it may buy coal and use steam as a source of power. So the large industrial plants can bargain for their electricity, and the power companies, in order to have them as customers, furnish them with electric current at prices which are only a fraction of those which must be paid by the ordinary consumer. In 1934 the average charge in the United States for electricity used for industrial purposes was 1.5 cents per kilowatt hour, while the average charge for domestic use was 6 cents per kilowatt hour.<sup>2</sup> Consumers wonder whether this is fair. They wonder whether it really costs four times as much to supply them with electricity as it does to supply electricity to industries. The power companies may justify the unequal rates by saying that they have to supply current to the homes of con-

<sup>2</sup> Bauer, *op cit*, p 679

sumers, and that by selling large amounts of additional electricity to industrial users of power they are able to use their plants more efficiently and thus produce all their electricity at lower cost. The average consumer cannot himself be sure which argument is right. Expert technical knowledge is necessary to determine fairness in rates. Consumers usually have only the public utility commissions to provide that expert opinion, and to protect their interests.

#### SERVICES PROVIDE EDUCATION, RECREATION, AND CULTURE

One field in which we are consumers of services of utmost importance is that of education. It is one of the greatest American traditions that all children should have an opportunity to go to school. Throughout our history the opportunities to use educational services have expanded. Educational services on high school and college levels are now available to more people than ever before. The education of adults is becoming of increasing importance. Educational services are, for the most part, provided by consumers for themselves, but they provide those services through the government. Such education as is regarded as necessary for all is paid for through taxes. Early in our history elementary schools were free and tax-supported. Later when people recognized the importance of secondary education, that, too, was made available in free public schools. The earliest attempts at adult education, aside from training for citizenship, were not free and tax-supported, but were carried on by groups of people who recognized their own needs, and who were willing to pay for further educational advantages. Now we are beginning to develop adult education as another phase of tax-supported services which we hope may be secured by an increasing number of people. Free public libraries, public forums, daytime and evening classes, all represent opportunities for adults to continue making use of educational services.



Cultural and recreational services are provided in a variety of ways. Many of these are also tax-supported functions of government. Cities provide playgrounds and parks, tennis courts, swimming beaches and life guards. Private agencies offer a high proportion of our recreation in the form of commercial enterprises, the most common of which are the motion picture theaters. Other private agencies make available important cultural and recreational services on a philanthropic, rather than a commercial, basis. Individuals and voluntary groups support art galleries, recreational centers, organizations like the Boy Scouts and Girl Scouts, and make their services available to the public. And finally there seems to be a revival of the formation of voluntary groups of consumers who get together to provide their own recreational and cultural, as well as educational, services. Choral societies, amateur dramatic groups, and clubs of various kinds are illustrations of this development. This trend is important, because it indicates that people are beginning to realize that often they can get more fun, as well as greater value, out of providing their own recreation than they can from paying for a ticket and watching others perform.

#### SERVICES NEEDED FOR HEALTH AND SECURITY

Some of the services which are necessary in order that conditions of living may be convenient, peaceful, and orderly, are regarded as so important that we take it for granted that they should be provided for all by the government, and supported by taxation. Examples of these services are the fire departments and police departments. These services help to preserve the security of our lives and property and contribute toward making all of our activities easier and more convenient. All consumers want to be secure against dangers which might arise from such calamities as fire and crime, and that security is

usually adequately provided by various agencies of government.

All consumers also need to be secure against other hazards or risks. One of the most important of these risks is that of economic insecurity. By economic insecurity we mean uncertainty as to whether we will have a sufficient income to provide ourselves with our needs as consumers. The typical consumer, with his income of \$22.00 a week, can seldom feel economically secure. As long as his income continues he has a degree of security, but his income is too low for him to be able to save much for emergencies. Therefore the fear of unemployment is a serious threat to whatever security he may have. The danger of unemployment due to lack of opportunities for jobs is only one part of the problem. Another results from worry about the time when the worker is too old to keep on making an income. Twenty-two dollars a week, used to support an average family of four, does not leave much of a surplus to put aside for old age.

Economic insecurity has a great effect on habits of consumption. Many consumers could build or buy their own homes at a cost which, in the long run, would be much more economical than paying rent. But an uncertain income is an important factor preventing a great many consumers from buying anything as expensive and permanent as a house.

There is little that the individual can do to solve the problem of possible unemployment. To protect himself against lack of income in old age, and to protect his family against the loss of his income if he should die, the individual can get a certain amount of security through insurance. Therefore the buying of insurance is one of the problems which wise consumers must understand. There are many kinds of insurance. Pension and annuity plans provide for the payment of certain premiums for a certain number of years. In return, when the insured person reaches a specified age, the insurance company

will return to him certain monthly payments as long as he lives. Life insurance, on the other hand, provides for the payment of a sum of money to the family, or the beneficiaries, upon the death of the insured person.

Contracts between the insurance company and the person insured, called insurance policies, vary a great deal. They differ in cost, and they differ in benefits. Because there are so many kinds of insurance and so many kinds of policies it is important for the consumer about to buy insurance to know just what these differences are, and just what form of insurance would serve his purposes best.

A person may have no dependents and may want insurance chiefly as a method of making himself save a certain amount of money for old age. Although there might be other methods of saving and investment which would bring him greater returns, he wants a pension or annuity plan which would force him to save and to continue saving, knowing that if he doesn't he will lose a part of the amount he has already invested. This form of insurance is relatively expensive, but it may be the best kind for some people. Another person may have a dependent family. He may have a good plan for saving and investment that will result in a sufficient amount by the time he is old enough to allow him to retire. He needs a different kind of insurance. Although his plan for saving is a good one, it depends on his income. If he should die at an early age the amount saved would not be enough to take care of his family. And so he wants an insurance policy which will provide the greatest possible benefits in case of his death, but he does not need a policy which gives him a way of saving money. These are only two illustrations of different kinds of insurance needed by different individuals. It is frequently of utmost importance that a person buying insurance should know what kind he needs, and what kinds are available. He should remember that not all insurance salesmen will give him the best

advice, that his best protection is to find out for himself. He should also know that there are insurance schemes that are fraudulent. Above all, he should read and understand every part of the insurance policy which he plans to get.

Many individuals help to solve their needs for security by buying insurance, but this method offers only a partial solution. Only a small proportion of our people take out enough insurance to offer real protection to themselves and their families in case the breadwinner dies. Very few maintain for themselves adequate pension and annuity plans to enable them to live comfortably after retirement. And since all of these plans are based on the payment of insurance premiums, they are all dependent on continued income. The loss of a job can result in the loss of all the security which may have been built up by insurance.

We have been considering individual attempts to get economic security. Since individual effort is not enough, we are also interested in social security, which means the attempt to provide security by society as a whole, working through the government. Social security programs provide for such forms of protection as old age pensions and assistance, unemployment insurance, and aid to dependent children and to those people whose physical handicaps prevent them from earning a living. Governments levy taxes for the purpose of providing these benefits.

Most European countries provided various kinds of social security long before they were developed in the United States. It was not until 1935 that a plan for a nation-wide program of social security was adopted in this country. Before that time, however, some steps toward social security had been taken. Federal, state, and many city governments provided retirement pension plans for their employees. Private companies, such as railroads and some industrial plants with large numbers of employees, also offered retirement pensions. The state

of Wisconsin had an unemployment insurance plan. All of the states had some provisions for taking care of persons who were blind and otherwise handicapped.

With the passage of the federal Social Security Act in 1935, and the later enactment of state laws to carry out the provisions of that act, the government began to provide a larger degree of security than ever before in the United States. Several different kinds of benefits are included in the law. One is a system of unemployment compensation, supported by a payroll-tax on employers, although some states have passed laws which require contributions from employees as well. This unemployment compensation plan is really insurance for the employee against becoming unemployed through no fault of his own. In case of such unemployment, the law provides for the payment of a certain amount of compensation for a certain number of weeks. Another part of the act provides for old age benefits. This is really an insurance pension plan, with the benefits paid out of contributions from both employers and employees, whose contributions are equal. After the age of 65 years a person covered by old age benefits may retire, and receive a pension, the amount of which depends on the wages earned before retirement. These provisions of the Social Security Act relating to unemployment compensation and old age benefits do not apply to all workers in the country. Farm laborers, domestic servants, casual workers, employees of charitable, religious, and educational organizations, and government employees are all excluded from the benefits of these provisions of the law. It has been estimated that only a little over half of our employed can be covered by the unemployment and old age benefits of our social security plan.

The other principal benefits provided under the Social Security Act are assistance to the needy aged, the needy blind, and to needy children under sixteen; provision for maternal and child health services, for medical and other services for

crippled children, and welfare services for the care of homeless, dependent, and neglected children. It also provides persons who are physically handicapped with training to enable them to earn a living. These services are administered by state agencies, but the federal government supplies a part of the money necessary, usually on what is called a matching basis. The federal government gives the states funds up to a certain amount. Each state must match this amount with money from its own treasury. State laws are therefore required to take advantage of the benefits under the federal act.

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#### SUGGESTED ACTIVITIES

1. Choose one of the services which are important to consumers and report on the major problems connected with that service.
2. Write to the Federal Security Agency for information regarding benefits provided under our social security plan.
3. Read and report on an article in a current magazine or newspaper dealing with public utility services.
4. List the services which you have made use of during recent weeks. Which of these could you have got along without? Which did you receive free, and who paid for them? Which did you have to pay for? Did you provide any services to other consumers?



should also have that care. Disease among a few people in a community can easily spread to others. The consumer knows that he and his children cannot be guarded effectively against tuberculosis unless all other consumers are also protected. Therefore health is a major social problem, of concern to society as a whole, as well as an individual problem.

There is another important feature of our need for health and medical care, which differs from some of our other needs. When a person needs a new suit, he knows that he needs it. He knows approximately how long his suit will wear, and about how soon he will need another one. Unless he is unusually careless about his budget, he knows about how much money he will need for food. If he contemplates buying some expensive commodity, like an automobile or an electric refrigerator, he knows exactly how much it will cost. But frequently the consumer needs medical care and doesn't even know that he needs it. If he becomes seriously ill, he will know that he must have some kind of care, but he cannot judge what care he needs. Nor can he tell how much it will cost. He cannot plan for the expense of medical care as readily as he can plan for the purchase of his other needs, because he never knows in advance whether he will be sick, or how much care he will need. These factors greatly complicate his problem in securing the care he should have.

#### HOW ADEQUATE IS OUR MEDICAL CARE?

We all know of individual cases in which persons have not had adequate medical care. Many people suffer from critical illnesses because they fail to see a doctor early enough. Many spend many painful hours at the dentist's office, and pay large bills for dental service, because they neglected to secure dental care until long after it was first necessary. But we cannot answer the question as to whether our medical and dental care is adequate by considering only individual cases. To get a fair



answer to the question we must find out how much care is received by all of the people. Many large-scale surveys have been made in an attempt to discover just what the true situation really is. One of the most useful of the recent investigations is that made by the Committee on the Costs of Medical Care. This was a committee of 48 trained and experienced people, of whom 27 were doctors of medicine. Its chairman was Dr. Ray Lyman Wilbur, president of Stanford University and former president of the American Medical Association. For five years this committee made a study of economic aspects of medical services, among all groups of people and in all sections of the country. The study was completed in 1932, and the results of the study published in two large volumes. From the information gathered by this committee we can get a partial answer to the question of how much medical care the people of the United States are getting.

The committee made a thorough study of 9,000 families at all levels of income, in many different parts of the United States. It found that while some differences existed, there was not a very marked difference in the extent to which illness occurred at different income levels.<sup>1</sup> But there was a great deal of difference in the amount of care received. Individuals in well-to-do families received more than twice as much care from physicians than was received by those with incomes of \$2,000 a year or less. The differences in the amount of dental care received was much greater. About 21 per cent of the individuals studied received some dental care during the year. But only 10 per cent of those with family incomes under \$1,200 a year, and only 16 per cent of those with family incomes of from \$1,200 to \$2,000 received such care. On the other hand, 41 per cent of those in the \$5,000 to \$10,000 income group, and

<sup>1</sup> *The Economic Aspects of Medical Services* (Reprint from Publication No 27 of the Committee on the Costs of Medical Care), University of Chicago Press, 1935, p 8

60 per cent of those with incomes over \$10,000, had dental care.<sup>2</sup> Remember that our typical consumer gets less than \$2,000 a year. But it is not only inability to pay for such care that prevents people from getting it, although this is a very important factor. It was found that while four out of five people in the lower income groups who needed dental care failed to get it, two out of five in the \$3,000 to \$5,000 income class who needed dental care were also neglected.<sup>3</sup>

The committee compared the amount of medical care received with the amount which should have been received under standards of good medical care. They concluded that "neither the rich nor the poor receive medical care in the home, in the physician's office, or in the hospital as often or as extensively as their true needs and the dictates of sound medical procedure warrant."<sup>4</sup> It was estimated that "the service from physicians was only 43 per cent of that considered essential for adequate care; the hospital care was only 25 per cent of the standard, and the dental care only 24 per cent."<sup>5</sup>

This lack of medical care is serious. It becomes of even greater concern to consumers, who need the care, when they consider that even with the existing number of doctors and hospitals much more of the needed care could be given. Doctors want to give this service, they now spend too great a share of their time waiting for patients. It was estimated that although we are now getting less than one-half of the medical care we should have, the number of physicians we have in the country could provide nine-tenths of the care needed, and although we are now getting only about a fourth of the dental care we should have, the existing number of dentists could

<sup>2</sup> *Ibid*, p 9.

<sup>3</sup> *Ibid*, p 9

<sup>4</sup> *Ibid*, p 10

<sup>5</sup> Foster, Wm T, *Dollars, Doctors and Disease*, Public Affairs Committee, 1938, pp 4-5.

provide us with half of what we need.<sup>6</sup> If we could all have adequate care our doctors and dentists would be better off. In addition we would need more doctors, and about twice as many dentists as we now have.

#### WHY IS OUR MEDICAL CARE SO INADEQUATE?

The progress of medical science in recent years has been amazing. In many respects our medical and dental science in the United States leads the world. Physicians have given, and are giving, hundreds of thousands of dollars worth of medical care for which they make no charge, and perhaps a fifth of the bills for which they do charge remain permanently unpaid. Why is it that, with all of the excellent facilities we have, there is still such a great proportion of our need for medical and health services that remains unfulfilled?

One important question is whether the people of the United States as a whole can afford adequate health care. Before attempting to answer that, let us consider just what is now spent. In 1939 there was spent in the United States a little over \$3,577,000,000 for all kinds of medical care. If this seems high, how does it compare with the total amounts spent for other things? It is less than half of what we spent for automobiles. It is only slightly more than we spent for recreation. It is not as much as the total amounts spent on tobacco and cosmetics.

Who paid this total amount of a little over 3½ billion dollars? In 1939, \$2.00 out of every \$100.00 spent was paid by the owners of industrial enterprises for medical services for employees, chiefly for those who were injured or contracted illnesses as a result of their employment. Five dollars out of every \$100.00 was paid by government, and hence, by taxation. And \$79.00 out of every \$100.00 was paid by individuals

<sup>6</sup> *Ibid.*, p 6

for services and care received.<sup>7</sup> In the depression years following 1929 the total amount spent was somewhat lower, and the proportions paid by individuals were decreased. This resulted in an increase in the proportion paid by the government. It is estimated that patients themselves now pay about 75 per cent of the total amount.

The  $3\frac{1}{2}$  billion dollars spent for all forms of medical and health purposes amounts to about \$30.00 per person per year. Experts say that, if wastes and unbusinesslike methods were eliminated, an average of \$36.00 for each person each year would provide adequate and complete medical care.<sup>8</sup> This is an increase of only \$6.00 per year over the amount now spent. It seems hard to believe that \$6.00 could make so much difference. We must remember, however, that the amount now spent includes much wasteful expenditure. Not all of this  $3\frac{1}{2}$  billion dollars is spent for medical service of recognized value. At least \$125,000,000 each year is spent for the services of faith healers and similar groups. The total amount spent each year on patent medicines is \$360,000,000. Much of this expenditure is either useless or definitely harmful.<sup>9</sup>

The average expenditure of \$30.00 a year is not evenly distributed. We know that low income groups spend much less than that, and the upper income groups spend much more. The expenditures vary considerably from one part of the country to another, and even in different communities in the same state. A rural county in Tennessee averages \$6.45 per capita, while the city of Philadelphia averages \$54.00.<sup>10</sup> There are, in proportion to the number of people to be cared for, only one-third as many physicians in South Carolina as there are in California; and there are more than a thousand counties in the

<sup>7</sup> *The Economic Aspects of Medical Services*, op cit, pp 3-4.

<sup>8</sup> Foster, op cit, p 12

<sup>9</sup> *Ibid*, p 9.

<sup>10</sup> *Economic Aspects of Medical Service*, op cit, p 14

United States in which there are no hospitals for general community use.<sup>11</sup>

Most of the \$30.00 average expenditure is spent in an effort to cure disease. Only a very small proportion is used for prevention. We all know that prevention is better than cure. Perhaps few of us, outside the medical profession, realize how much expense, suffering, and early death could be avoided if adequate preventive care could be given. Yet only \$1.00 out of every \$30.00 is spent for all official and non-official public health work, and not all of this is used for prevention alone. Of the amount spent by individuals for medical care, only 1.4 per cent goes for all types of preventive service.<sup>12</sup>

With all of these facts in mind, we can see some reasons why we do not have adequate health care. One reason is consumer ignorance. There is still enough superstition among some of our consumers to make it possible for "quack" cures to take in millions of dollars. The huge expenditures for patent medicines reveal a lack of knowledge of the best methods of obtaining medical care, and an unfortunate willingness to believe the absurd claims regarding the curative power of many so-called medicines. The small proportion of consumer expenditures for preventive care shows that we are not fully aware of its importance. The fact that, in families with incomes of from \$3,000 to \$5,000 a year, two out of five who need dental care fail to receive it, is an indication of consumer ignorance as to the importance of such care. In such cases neglect cannot be the result of too low incomes. In our efforts to secure health care, as well as in our desire to secure all other consumer services and goods, education and understanding are of utmost importance.

But the major reason why we do not have adequate health care is an economic one. The majority of our consumers can-

<sup>11</sup> Foster, *op cit*, p 9

<sup>12</sup> *The Economic Aspects of Medical Service*, *op cit*, p 16

not at present afford the standard of medical care which is necessary if they are to be as healthy as they should. This does not mean that the United States as a whole cannot afford good medical services. As long as we spend more on cosmetics and tobacco than would be needed to provide good medical, dental, and hospital care for all, we cannot say that our national income is too low to buy that needed care. But if the national income is not too low, individual incomes frequently are.

Many families whose incomes are sufficient to provide them with all of their ordinary necessities find it difficult or impossible to meet expenses for health and medical care, largely because these expenses are unexpected, and because, when they do come, they are so large. Each year one family out of ten, or 10 per cent of the total, meets with illness so serious and so expensive that, except for the wealthy, there is extreme difficulty in meeting the bill for medical care. This unfortunate 10 per cent pay 41 per cent of the total costs of medical care in the United States each year. Another 32 per cent of the families pay another 41 per cent of the total costs. And the remaining 58 per cent of our families, who, in any one year, are fortunate enough to have very little illness, pay only 18 per cent of the total costs.<sup>13</sup> As a general rule, a family in this lucky group pays its small bill for medical care, but fails to set aside savings to take care of the greater expenses which, if the family is an average one, will occur in some future year.

#### THE PROPOSAL FOR PUBLIC MEDICINE

The problem of providing adequate medical care for all people in the United States has become so important that many different methods for solving that problem are being proposed. One of these methods is public medicine. Public medical care

<sup>13</sup> *Ibid.*, p. 11

means care provided by government agencies to all who need it, just as public education means educational services provided by government agencies at government expense. The advocates of public medicine believe that our present system of distributing medical care has failed to give necessary services to all of our people, and they believe that better distribution would result if the government were in charge. Proposals for public medical care are, however, vigorously opposed by large numbers of people, including the majority of those in the medical profession. Some of those who oppose public medicine believe that there are other methods of improving our present system that would be better than putting it all in the hands of government.

We must remember that there are many forms of public medical care which are supported by all groups. We now have many public health and medical services which have been in operation for some time, and which have been completely accepted by the medical professions. Ninety-five per cent of patients who are mentally ill are taken care of in government hospitals by doctors and nurses employed by the government. Seventy-five per cent of sufferers from tuberculosis are similarly taken care of by the government. And about one-third of the patients in other general and special hospitals also receive care paid for by government agencies.<sup>14</sup> No one doubts that the government is the only agency that can enforce pure water, pure food, and quarantine regulations. It is taken for granted that people who are on relief and who are unemployed should not be denied medical care, but that such care should be paid for by the government. About one-seventh of the total amount spent for all kinds of medical care in the United States is paid by the government from money secured by taxation.

The argument, then, between those who advocate public

<sup>14</sup> Foster, *op cit*, p 24

medicine and those who oppose it, is not really an argument for or against the performance of medical and health services through government agencies. It is really an argument about how many services should be provided by the government. The question is whether these services should be increased and extended, and how far they should be increased. There is now, for example, before the public a proposal that the government should provide money for building hospitals in communities where there are now no hospital facilities, but where they are badly needed. There seems to be a fairly general agreement that the federal government should give financial assistance in building hospitals to communities that cannot afford them. But there is some disagreement with regard to how those hospitals should be managed after they are built, and how much should be contributed by the federal government to their operating expenses.

Our democratic system requires that the decision made on the question of public medicine, as on all other public questions, should be made by the people themselves. Therefore it is important that we should all know the arguments used on both sides, and that we should understand the facts, in order that our decision may be an intelligent one. The most deep-seated issue about which the disagreement centers is whether the government should go the whole way in providing, at public expense, complete health services to all who need them.

Those who oppose any proposals for such an extension of public medicine give several principal reasons. One is that such a control of the distribution of medical care by government agencies would result in a control by a political machine, which would be subject to all of the defects of other politically controlled agencies. They point out the danger of an emphasis on quantity instead of quality, because of the fear of increasing costs and therefore of increasing taxes. They fear that doc-



tors will be overworked and will be unable to give the most careful attention to their patients. They are afraid that the use of prescriptions and medicines will be restricted, as they have been in some foreign countries providing public medical care. They argue that more medical progress has been made in the United States under a system of private medical practice than has been made in some other countries with systems of public practice. They want to maintain the right of the patient to have his free choice of physicians. Above all they maintain that medical services should be controlled by the medical professions, and they believe that public medicine would endanger that control.

Those who favor proposals of public medicine believe that public control need not involve a political machine. They point to the very fine work done by such publicly-supported institutions as some of our finest hospitals for tuberculosis, and by public health agencies. They argue that there can be a better relationship between a patient and his physician if neither has to worry about the size of the fee. They believe that consultation among doctors, specialization, and preventive medicine might be furthered. They think that the position of the doctors and other medical workers would be improved because they would have no worries about bookkeeping and bill collecting, they would have opportunities for vacations and further study. But their main argument is that medical service provided at public expense could be made as extensive as the need required. Services not now available in certain areas and to certain people could be provided. Medical care could be given to all people, not as an act of charity but as a recognized right, just as we now try to provide educational opportunities to all children. They believe that good doctors will give the best service they can, whether they receive in return a large fee or a salary, or even when they receive nothing. They point

out that many of our greatest doctors have been employed by government agencies.

It is impossible to summarize all of the arguments on both sides of this question in a few paragraphs. Scores of books and hundreds of magazine articles have been written on the subject. An attempt has been made, however, to list the points of view most frequently expressed. It is important to note that many of the arguments used to oppose public medicine do not really apply to the principle of providing care at public expense, but refer to particular systems under which such care might be administered. These arguments might not apply to all plans that could be adopted. It is also significant that many of the arguments of those who favor public medicine refer to advantages that could be obtained under other systems as well as under public control.

Before we can form an intelligent opinion on the question of public medical services we must consider all arguments on both sides. We must try to find out how well the provision of medical care at public expense has worked out, both in places where more or less complete medical care has been given, and in the fields in which some forms of medical and health services have been provided here in the United States. We must also consider other proposals that are being made to provide more adequate medical care.

#### INSURANCE FOR MEDICAL CARE

We have seen that it is taken for granted that certain public health services should be provided by government agencies. It is also taken for granted that those who are unable to support themselves, whether it is because they are unemployed, physically handicapped, or too young or too old, should be given free medical care. This free care is provided both by the donation of services by doctors and by government assistance. We know that in the upper income levels people are able to

get good medical care and pay for it under the prevailing fee system. But there is that large part of our population which is in between the upper and lower income groups for which medical care is a real problem. Families in this group are self-supporting. They earn enough for the everyday necessities, and some of them are able to have some extra conveniences and a few luxuries. But when they have to face the expenses of a long illness, large hospital and doctor bills, they are hard hit. This group of millions of families do not need to be given free medical care, but they do need some system by which they could avoid extremely high expenses at one time. They need some method of budgeting their medical expense, so that it can be paid over a long period of time. Most methods designed to achieve this are based on the principle of insurance.

Insurance is a method of protection against the risks of large losses due to misfortunes and accidents which do not happen regularly or often, but which are very serious when they do occur. The home-owner insures his house against fire, because he knows that if it should burn down it would be very difficult for him to secure enough money to replace it. By taking out fire insurance he pays a small premium each year, and thousands of other people do likewise. He knows that only a certain number of houses, on the average, will burn each year. If his is one of those that burns, then some of the money that all of the others paid in fire insurance premiums will be used to help pay him the amount of his insurance. If his does not burn, then some of the money he has paid in will be used to help the less fortunate. Meanwhile, he has received the protection of that insurance, the knowledge that if he had been a victim of fire he would not have faced a total loss. He can easily make the relatively small, annual premium payments, although he could not afford to rebuild his house or buy a new one. This insurance method accomplishes two things. It spreads the risk over a large number of people, all of whom contribute to

the protection which they all receive. It makes it possible for an individual to pay small amounts which he can afford, and to pay them regularly.

Group insurance for medical services is a comparatively recent development. It has grown amazingly in the past few years in the field of providing hospital care. Since hospital care is usually necessary in the most serious and most expensive cases of illness, hospital insurance is a real protection. Most of the hospital care insurance now being provided is carried out through associations of hospitals, which agree to furnish a certain amount of care in return for small monthly payments. The care is provided only in the hospitals which are members of the association, except in cases of emergency. The greatest development of this form of hospital care insurance has been in the large cities. Similar hospital care insurance, at rates slightly higher than those charged by the organizations owned and controlled by the hospitals themselves, is offered by several regular insurance companies. These insurance companies pay for hospital care in any hospital in the country. A cooperative insurance organization has recently been organized, owned by all of the consumers who are insured for hospital care, which provides insurance for hospital care anywhere in the United States at rates lower than most of the commercial insurance companies or the associations of hospitals.

Group hospital insurance has proved successful. It removes the burden of heavy hospital bills. It makes it possible for people to get hospital care when, without such insurance, they would either have to try to get along without hospital care, assume a heavy debt, or accept charity. Sometimes the patient's recovery is aided by the fact that he need not worry about the hospital bill. Hospital insurance benefits not only the patients, but their doctors as well. Physicians can feel freer to recommend hospitalization of many patients whom they might otherwise hesitate to send to the hospital. Patients can more easily

pay their doctor bills when their hospital bills are taken care of. The principle of insurance applied to the payment of hospital bills has now received the general approval of the medical profession as well as the public. But since the expense of hospitalization is only a part of the cost of medical care, this form of group payment in advance for hospital care provides only a partial solution.

Methods are now being tried to carry out the same principle of group prepayment for medical care of all kinds. Many who have observed the success of hospital care insurance, and who recognize that the number of consumers who need the care of physicians each year is far greater than the number who need hospitalization, advocate the extension of the insurance to the payment of doctors' bills. A majority of the Committee on the Costs of Medical Care recommended the development of voluntary group insurance for the prepayment of the cost of physicians' services. The American College of Surgeons has indicated its belief that such a plan might result in an improved method of securing medical care for families with moderate incomes. The California State Medical Society has endorsed this principle, and many scattered county medical societies throughout the country have approved of this method and in some cases have even organized plans for carrying it out<sup>15</sup>

One of the best known examples of voluntary group insurance plans which provide complete medical care is the Ross-Loos Medical Group of Los Angeles, California. This group is operated by a staff of many full-time physicians, whose number includes specialists in many fields of medical care. They offer to members of their group insurance plan office calls and home calls, diagnosis and treatment of all kinds, including eye examinations and hospital care. With the exception of eye-glasses and certain unusual and expensive medicines, members receive all ordinary services and supplies. Employed persons may join,

<sup>15</sup> Foster, *op cit*, pp 15, 18

and they subscribe to the services through the groups of employees of which they are members. The costs of the services which they receive are \$2.00 a month per employed person. This amount is paid by the member whether he is sick or well. There may be months, or even years when he needs no medical services. But the \$2.00 a month is really his insurance against high medical expenses. He may become very ill, he may require an operation and the services of specialists, and in that case too he pays his \$2.00 a month.

There are many variations of this plan of health insurance now in operation. The Group Health Association in Washington, D. C., is a cooperative organization owned by the consumers who receive the medical care which it provides. In many ways its services are similar to those of the Ross-Loos Medical Group. Another cooperative organization which provides complete health care for its members is the Farmers' Union Cooperative Health Association of Elk City, Oklahoma. A further discussion of cooperatives providing health and medical care will be found in a later chapter dealing more particularly with the methods by which consumers themselves organize to supply their own needs. It should be mentioned here, however, that while in cooperative organizations the members are the owners, they control only the business part of the organization, and leave all of the control of the medical services to the doctors whom they select.

Another kind of plan in which consumers can prepay their medical bills is illustrated by the Kings County Medical Service Bureau in Seattle, Washington. Most of the physicians who are members of the county medical society participate in this plan, but they give their services as individuals instead of practicing in groups, as is done in the Ross-Loos Medical Group and in the Group Health Association of Washington, D. C. Consumers pay a certain amount each month into the organization which is formed by the physicians. A consumer may choose

any doctor in the group, who agrees to provide him with the care he needs. Some of these county plans offer their services only to persons earning less than a fixed amount each year.

All of the plans thus far discussed have been voluntary ones. No one needs to participate in these plans, or pay fixed amounts each month, unless he chooses to join because he wants the protection and the services provided. These plans are all described as voluntary health insurance. There are some people who would go a step further. They advocate various plans of compulsory health insurance. Under a compulsory insurance plan all employees who fall within certain classes would have to take part in the plan, just as they now have to take part in the unemployment insurance program under the Social Security Act. Most of the compulsory insurance plans which are proposed provide for the payment for the services by contributions from the employer and from the government as well as from the employee. The majority of them would require all employees earning less than a certain income to contribute to the system and receive its benefits. They could select the doctor of their choice. Often these plans of compulsory insurance provide for a sort of unemployment insurance as well as insurance for medical care, since they would pay certain cash benefits to an employee who, because of illness, was unable to work and thus faced a loss of wages.

One form of compulsory health insurance has been practiced in Great Britain since 1911. There has been much criticism of the British system, but it has been sufficiently successful to result in the passage by the British Medical Association of a resolution stating that "The measure of success which has attended the experiment of providing medical benefit under the National Health Insurance Acts System has been sufficient to justify the profession in uniting to secure the continuance and improvement of an insurance system."<sup>16</sup> In the United

<sup>16</sup> Foster, *op cit*, p. 22

States, suggestions for compulsory health insurance have been vigorously opposed by most organized medical societies, and no plans for compulsory insurance have been put into effect in this country. Compulsory health insurance would be required by law. Both government and employers would be forced to contribute. The government would have something to say about its administration. For these reasons many of the arguments used against it are the same as those used in opposition to public medicine.

Perhaps the chief argument for the need of compulsory health insurance is the assistance which such a plan would provide for the lowest income group, those most in need of help. Many believe that voluntary health insurance could not provide care for this group at a cost which they could afford; but that compulsory insurance, with provisions for contributions from employers and from government, would give them a chance to get needed health services.

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There are some people who believe that we now have adequate medical care under our present system. But the investigations which have been made seem to show that only a fraction of our total population find the present system completely satisfactory. For the great majority of consumers, who are not in the upper income groups, improvements are necessary if enough good medical care is to be made available to them at a cost which will not be unduly great. Improvements in the method of providing medical care would benefit not only the consumers, but doctors, nurses, hospitals and dentists as well, for there would be a greater demand for their services, more doctors and dentists would be needed, and they would be able to receive a larger and more certain reward for their services.

From the point of view of the consumer, the goal of any plan or combination of plans for good health and medical care



is to supply such care to all who need it. It is very probable that no one plan will be sufficient to achieve that goal. The development of any particular plan does not prevent the use of other plans as well. Perhaps a variety of plans should be tried in order that advantages and disadvantages may be discovered and improvements made. Public medical care is accepted and approved in many fields, and the question is whether, or how far, those fields should be extended. Voluntary health insurance is now accepted when applied to hospital care, but is sometimes still opposed by organized medical groups when applied to complete medical care. There are now a variety of groups in many parts of the United States providing voluntary insurance for complete medical care so successfully that this method is receiving increasing attention both from consumers and from the medical profession. Compulsory health insurance is being advocated as one method of especial importance to the lowest income groups. It is being opposed especially because of its compulsory features. Americans have a tendency to oppose anything compulsory, especially when it applies to private affairs and individual choices. Yet, if the goal is considered important enough, Americans accept and believe in compulsion, as is illustrated by our support of laws for compulsory school attendance. If private medical care and voluntary insurance plans cannot or do not provide adequate medical care, the people may demand compulsory health insurance or an extension of public medical care.

Although the arguments about the relative merits of various methods of providing medical care may at times seem bitter, the aim of those on all sides of the argument is the same, the provision of good medical care to all. A wise solution of the problem will depend on our ability and willingness to face the facts, understand the problem, and undertake democratic experiments to improve the existing situation.

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## SUGGESTED ACTIVITIES

1. Read the Public Affairs Pamphlet, "Dollars, Doctors, and Disease," and some current magazine article (consult Readers' Guide) on the subject of consumers' needs for health services.
2. Make a poster or chart indicating some phase of the information you have learned.
3. Find out what provisions for preservation of health are carried out by your local and state government and your school.
4. An interested member may read and report on the chapter in Louis Adamic's *The Native's Return* which describes the methods of providing health services in Yugoslavia. Contrast the situation there with that in this country. Others may report on articles describing health services in other countries.
5. Do you know of any instances of the needless or harmful expenditure of money for "quack" cures? Why was such money spent? What might have prevented it? Give examples of advertising which might lead consumers to waste money on useless medicines.
6. Make a list of health services now provided by our government. Make another list of any others which you think should be provided. Make a third list of services which you think should not be supplied by the government. Compare your lists with those of other members of the class, and give reasons for placing the items in the second and third lists.
7. Do you agree or disagree with the following. "A plan should be put into effect which would guarantee adequate medical and dental care to all children of school age in the United States, regardless of their ability to pay for such services." Give your reasons. What would be some of the difficulties in carrying out such a plan? In what ways would it benefit society as a whole?

161

sumers, but there are other laws which favor interests of smaller groups at the expense of consumers. Some business practices help the consumer, others hinder him. We find that our interests as consumers depend not only on our own knowledge and ability as buyers, but on the whole complicated manner in which the goods and services we need are produced and distributed. Learning to be better buyers will bring only a partial solution of our problems as consumers. A real solution must depend on consumers understanding the importance of their interests, the factors which underlie the problems they face, and methods which are being tried or advocated to help in the solution of those problems. We need to know what agencies and what influences are working for consumer welfare. We must inquire what more needs to be done. Above all, we must consider what we ourselves can do to further our interests as consumers

#### EDUCATION CAN HELP THE CONSUMER

This understanding of consumer problems, so necessary if those problems are to be solved, requires education. Some of it can be obtained formally in school and college classrooms, and in adult education study groups. Some can be gained through experience. Much can be learned through reading. Such agencies as the radio are beginning to do some good work in consumer education, and could do much more than they are doing.

In recent years our schools have begun to increase their emphasis on consumer education. For a long time schools have offered an important part of consumer education in home economics courses, and until recently such courses were usually the only ones in which problems were presented from the consumer point of view. But schools have taught us to be better consumers in many ways which we do not recognize as consumer education. They have taught us to be better consumers

of literature and music and other forms of art by introducing us to the best that is available and helping us to enjoy it.

With the recent interest of consumers themselves in their economic problems, the schools have recognized that more specific attention should be given to those problems in school courses. As a result there is a trend toward giving courses which include material on how we can become better buyers of the goods we need. Business courses and social studies courses include problems of the consumer. The study of mathematics emphasizes training and practice in calculations and problems of importance to consumers. Courses in science tend to deal more and more with the scientific aspects of consumer problems.

Outside of schools and colleges many less formal educational activities are helping us to become better consumers. Study groups and clubs are often organized for the purpose of studying the cost and quality of merchandise and other problems faced by housewives in buying for the family. A great deal of adult education on subjects of interest to the consumer is carried on by home demonstration workers of the extension service of the United States Department of Agriculture in cooperation with state universities and colleges. Under this program are about 25,000 home demonstration workers, assisted by about 200,000 local women leaders. Thousands more are engaged in some phases of 4-H Club work and are in touch with over one and a half million families. They help these groups, usually in rural areas, to study better ways of buying and making use of clothing, food, and household goods.

There are many general organizations and clubs which, while not organized especially for the purpose of studying consumer problems, have given them increasing attention in recent years. One of the largest of these is the General Federation of Women's Clubs, which consists of approximately 2,250,000 individual members of about 14,500 clubs. The General Federa-

tion of Women's Clubs has prepared a definite program of consumer education. In cooperation with the Consumers' Counsel of the AAA, it broadcasts a weekly discussion of consumer problems over a nation-wide radio hook-up, and it provides its members with speakers on subjects of consumer interest. Another organization of general interest which has devoted much study to consumer interests is the American Association of University Women. Local chapters of this organization sponsor the study and discussion of the position and problems of consumers in our present society. Its national organization is responsible for the preparation and circulation of excellent materials to assist in the study of those subjects. It reports almost twice as many local units conducting consumer programs in 1938 as in 1937, and is steadily increasing the space given to those problems in its conventions and its publications.

These organizations contribute much to the education of adults in consumer subjects, but they do not limit their work to the field of education. Both work for better standards of consumer goods and for a more widespread use of informative labeling. Another large organization, the National League of Women Voters, is interested in consumer welfare insofar as consumers are affected by government activities, and gives active study and support to government measures for consumer protection, such as better food and drug legislation. The National Congress of Parents and Teachers, consisting of local associations comprising about 2,250,000 individuals, is actively concerned with all problems of the home including homemakers' consumer problems. The National Federation of Business and Professional Women's Clubs includes subjects of consumer interest in its program.

The American Home Economics Association is an organization of real importance in the field of consumer education, since the teaching of consumer education is its major field of activity. The Consumer Education Association is another

group which has recently been organized, to consist of those interested in the teaching of all phases of consumer education whether they are in the field of home economics, business, social science, or any other subject of consumer interest. The Institute for Consumer Education at Stephens College, Columbia, Missouri, was founded in 1938 as an independent agency for consumer education. The Institute has established consumer courses at Stephens College, sponsors research and publications on consumer problems, issues a monthly news letter and many study materials on the subject. It has conducted annual national conferences on consumer education since 1939, which are attended by hundreds of interested people.

These are only some of the organizations and activities which indicate the interest in and the need for more education on the subject of our interests as consumers. Education cannot be separated from other kinds of activity. We shall see later that the work of consumer testing agencies has been of considerable educational importance, and that business organizations have attempted to solve their consumer problems by educational methods. While we do not have time to examine all of the developments toward more and more education for the consumer, those examples we have briefly noted indicate the trend toward better knowledge and understanding of those problems.

It is important, however, to consider to what extent this trend in education can be expected to help the consumer. We must distinguish between two aspects of education on consumer interests. One of these aspects emphasizes how to buy, and how to use the goods after they are purchased. It is concerned with such problems as how to tell one fabric from another, what qualities to expect in products to be used for certain purposes. In other words, its purpose is to train us to be better buyers of goods that are available. It also involves the planning and budgeting of our expenditures in order that

we may get the greatest possible satisfaction within the limits of our incomes.

In previous chapters we have already seen that the emphasis on becoming better planners and better buyers is valuable, but that it has certain important limitations. We have seen that few consumers have time to learn all they should know to become expert buyers of the immense variety of things which they must purchase. And even if they did have the time, they would scarcely be able to make use of all of the available information. We can learn what things to look for to determine the kind of workmanship that has gone into a suit or a dress that we buy. We can tell something about the quality of the material. But most of us cannot hope to learn enough to be able, by our own individual efforts, to be equally good judges of the quality and serviceability of a pair of shoes, an electric refrigerator, an automobile, a vacuum cleaner, a can of paint, and a bottle of medicine advertised for the relief of colds. Education cannot enable us to see inside a can, but it can inform us that canned goods with government grades printed on the label are available. Likewise, better planning of our expenditures is of great value to the consumer, perhaps of greater value to those with lower incomes than to the more fortunate minority. But it cannot in itself lower the cost of necessities.

This first aspect of consumer education is aimed at teaching consumers, as individuals, to spend their money wisely in such a way that it contributes most to their own interests. The second aspect of consumer education is necessary because wise planning and wise buying on the part of each individual consumer are not enough. In previous chapters we have noted some of the problems of quality and cost of consumer goods. Many of the most important of these problems cannot be solved by individuals alone. When the problem of securing pure, unadulterated, and correctly labeled drugs and medicines arises,



we find that laws are necessary for consumer protection. Individual citizens of the whole country must work together through their government to provide that protection. Many other laws, such as tariffs and taxes, affect our interests as consumers, and we must again work together through our governments to protect our interests. But individual consumers have little influence on government policy unless they work together to secure what they want. We shall see later that consumers sometimes get together to work for their own interests in voluntary organizations apart from government. They may merely meet in groups to study their problems. They may form or support an organization which tests products for quality and reports its findings. They may join cooperative business organizations to supply themselves with consumers goods. All of this activity requires education which goes farther than learning how to buy wisely. It requires that consumers study and understand the causes of their problems, the way our present system of production and distribution works, and forms of activity which may help them solve their problems. This second aspect of consumer education can accomplish much in the way of providing an intelligent basis for activity on the part of consumers.

#### TESTING AGENCIES HELP THE CONSUMER

We have seen that the individual consumer finds it difficult to be a wise buyer of the many kinds of goods needed, because he is unable to become an expert in the testing and judging of most products. There are, however, experts on each commodity who are well trained in judging one product or a group of similar products. If we consumers could afford the services of experts in helping us to choose among the many varieties of goods on sale, we could make our choices much more wisely than we do. One consumer could not afford to employ an expert to help him choose, but hundreds of consumers, by

contributing a small amount each to the testing of products, could save money by the use of expert services. Business and professional organizations can also afford to have experts test the products in which they are interested. There are now several different kinds of testing and approving agencies whose results are available to consumers.

One kind of testing agency examines products and, if they are acceptable, awards them a "seal of approval" or a "seal of acceptance." The manufacturers of products which have been awarded such seals may use the seals on their labels and in their advertising. The value of such seals of approval depends entirely on the kinds of tests which are made, and the standards which products must meet before they are approved. Several popular magazines have "institutes" which test and grant approval to products advertised in the magazines. Some of their seals have become well known, and are used on numerous products in everyday use. Consumers want to know how much they can depend on such seals of approval granted by testing institutes connected with popular magazines.

This type of magazine testing service has several limitations from the consumer point of view. The seals which are granted do not indicate what kind of tests have been made. They do not state the minimum standards required for acceptance. Nor do they indicate any degrees of quality. Two kinds of vacuum cleaners may be accepted, but the consumer cannot tell whether one is better than the other. All he can tell is that both of them have met certain standards set by the magazine institute, and he does not know what those standards are. One of the vacuum cleaners may cost much more than the other, and the consumer has no way of finding out, from the seal granted, whether the more expensive one is worth the additional cost.

The consumer who is considering the value of seals of approval granted by magazine institutes must also remember that

a good share of the income of the magazine comes from the advertising of the products which it has accepted. Whenever the magazine institute rejects any product as failing to meet its standards for approval, it also has to reject the income which it might receive from advertising the product. This important business connection may tend to lower the standards for acceptance. The Federal Trade Commission has for some time carried out an investigation of the advertising and seals of approval of one of the best known magazine institutes. It has found, for example, that this magazine permitted advertising of approved products to claim that through the use of one tooth-paste "pink tooth brush is prevented," and that the use of another tooth-paste is "a sure way to correct bad breath." This magazine assures consumers that it has made every effort to be sure that essential claims made in its advertising are justified. Yet all dental experts tell us that no tooth-paste can prevent tender or bleeding gums, and that no tooth-paste is a sure way to correct bad breath. Such examples as these seem to indicate that seals of approval granted by magazine institutes cannot be taken too seriously by the consumer. On the other hand, it has been found that this same magazine had a lower proportion of exaggerated and misleading statements in its advertising of cosmetics and medicines than the proportion found in the advertisements of another magazine which does not have a testing institute.<sup>1</sup>

The consumer can place much more faith in seals of acceptance granted by professional associations. Among these the most notable are the seals granted by the American Medical Association. The American Medical Association has a Council on Foods which awards a seal of acceptance to foods which are honestly advertised, correctly labeled, and which are pure and wholesome. The Council does not recommend the use of these foods, but its seal assures consumers that

<sup>1</sup> Reid, *op cit.*, p 300

claims made are not misleading, that the product is safe and nutritious. The Council has set up standards for advertising which it will accept. It does not approve of claims that any particular food will specifically result in good health, for health depends on many factors other than wholesome food. It objects to claims that any particular product is "the best" there is, but permits claims to be "one of the best." It will not accept claims that any food should be used as a remedy for any certain illness. It carefully examines for accuracy any claims regarding the vitamin and mineral content of foods advertised.

The American Medical Association also has a Council on Pharmacy and Chemistry. This Council tests drugs which are sold as proprietary (patent) medicines, and grants seals of acceptance to those of which it approves. Its object is to protect doctors and public against fraud, objectionable advertising, and undesirable secrecy in drugs and medicines. Because the Council does not want to encourage consumers to buy and use medicines without the advice of a physician, it does not grant its seal of approval to many products which are advertised for sale to the consumer directly. There are, however, some medicines advertised for sale to the consumer, such as cod liver oil, laxatives, and antiseptics, which may be awarded the seal of acceptance of the A.M.A. Council on Pharmacy and Chemistry. In no case may medicines accepted by this Council be advertised in such a way that they are recommended as cures for any ailments.

The protection offered to consumers by the Councils of the American Medical Association are valuable. It has resulted in better advertising and labeling. The protection is limited, however, in some ways. Products which fail to gain the approval of the Councils are not known to consumers, and may continue to be sold. Sometimes foods receiving the seal of acceptance are expensive, yet are no better than less expensive brands which are not widely advertised and which therefore

have never been submitted for approval. Finally, this protection is limited because only a comparatively small proportion of our consumers are familiar with the nature and value of this testing service. These limitations are not the fault of the Councils of the A.M.A. The Association offers many services to consumers other than its testing of foods and drugs. It exposes frauds and quacks of all kinds in the medical field. It investigates products which may prove harmful to consumers. It publishes *Hygeia*, a health magazine written for the general public. In these fields also the services could be of greater value if more people took advantage of the information which the Association provides.<sup>2</sup>

The American Dental Association has a Council on Dental Therapeutics which awards seals of acceptance to tooth-pastes and tooth-powders which are advertised in a manner acceptable to the council and which are safe to use in cleaning the teeth. This service is subject to limitations similar to those described for the Councils of the American Medical Association. It is surprising how few of the most widely-used tooth-pastes carry the American Dental Association seal of acceptance.

Besides the testing agencies of magazine institutes, and those of professional associations, much testing is done by retail stores. Large retail organizations such as mail-order companies and large department stores have their own experts test many of the products they sell, or they make use of commercial testing agencies to judge certain products for them. They do this to protect themselves against the purchase of goods of inferior quality, to protect their reputation, and to protect their customers. Then there are private trade associations, organized and supported by businesses dealing with certain types of products, which test and approve goods sold to the public.

<sup>2</sup> For interesting material on this subject see Cramp, A. J., *Nostrums and Quackery*, American Medical Association, Chicago, 1936.

One of the best known of these is the American Gas Association, which tests and awards its seal to gas-burning appliances which meet its standards for quality and safety. It has been estimated that about 90 per cent of the gas-burning appliances sold to consumers bear the seal of the American Gas Association. Similar testing and approving of electrical appliances, matches, oil burners and various other products is done by the Underwriters' Laboratories, Inc. The consumer who insists on the label of the Underwriters' Laboratories on the electrical appliances which he buys is assured that they have been tested for safety under standards set up by that organization.

In recent years another kind of testing agency has developed in the United States. The first to appear, Consumers' Research, was founded in 1929. Consumers' Research is an independent organization, supported by the consumers who subscribe to its services by paying \$3.00 per year. In return for this subscription, consumers receive confidential bulletins containing ratings of nationally advertised products based on tests and investigations made by Consumers' Research. In 1935, as a result of labor troubles within Consumers' Research, there was organized another similar testing agency, Consumers' Union. Consumers' Union soon acquired a membership larger than that of Consumers' Research. Its work is similar to that of the former organization, with certain exceptions. In addition to rating products according to their quality and price, Consumers' Union investigates the labor conditions under which they are manufactured, and emphasizes the importance of buying products made under good labor standards. Consumers' Union is a membership organization, owned and controlled by its subscribers, and each consumer who joins has a vote in electing its Board of Directors. A third testing agency, the Inter-Mountain Consumers' Service, deals with products sold especially in the western states.

These three testing agencies are all financed by consumers

themselves, and consumers therefore have the right to expect that their interests will be the chief concern of the organizations which they support. Unlike the testing agencies described previously, these organizations list by name those products which fail to meet their standards as well as those which are accepted. Furthermore, among those which are accepted, they attempt to rate the products as to which are the best buys, and which, while acceptable, are not as good as some others. Price as well as quality is emphasized. They test a great variety of products, and not just those within a certain field.

These non-profit testing and rating agencies offer to the consumer a kind of help in choosing his purchases which is not available from any other source. A person who subscribes to the services of one of these agencies receives a bulletin each month in which several types of products are rated. He may find a rating on soap, on shoes, or on automobiles. The bulletins give information on price. Two brands of soap, for example, may both carry seals of approval of other agencies which inform the consumer that they are safe and pure. But only these consumer-financed testing agencies give information as to which is the more economical to buy. Not only is the price per cake of soap listed, but, because cakes of soap which seem to be the same size may differ considerably in weight, the price per ounce is given. Further, soaps which weigh the same may have different values, because some soaps contain more water than others. Even this factor is considered in the ratings given by the consumer testing organizations. In several ways consumers can obtain assistance and expert advice through these agencies at a cost which is relatively low.

But in spite of its real value, this kind of testing service has some important limitations. One serious problem is lack of funds. The income from yearly subscription prices paid by consumers is not sufficient to make it possible for the testing agency to make expert scientific tests on all the thousands of

different types of products which we buy. Even the articles most frequently purchased vary in quality from one part of the country to another, and a complete sampling of products from all sections would be too expensive. Ratings on brands which are made and sold locally are seldom found in their reports. Another serious limitation arises out of the fact that the quality of a particular brand does not necessarily remain the same from one year to another. XYZ brand may, for example, be found by a testing agency to be defective in some way, and the manufacturer may honestly try to remedy the defect. Yet in spite of the attempt to improve the product, consumers who read the original report may continue to believe that the brand is inferior and therefore should not be purchased. Limited funds may prevent the testing agency from making a new test and a new recommendation on XYZ brand for some time, and even when the report comes out, it is likely that many of the people who read the first unfavorable report may fail to read the new recommendation. The manufacturer of this product is likely to protest at the effect of the rating made. On the other hand, it is possible that a brand which received a high rating may not continue to maintain the quality which it had when the original test was made. ABC brand, for example, which was of excellent quality last year may be of lower quality this year. Yet unless and until new tests are made, consumers will continue to buy ABC brand in preference to XYZ, not aware of the fact that one has decreased and the other has increased in quality.

Because these consumer testing agencies were the first to list specific brands which were disapproved as well as those approved, because they rate these brands in comparison with one another, and because they frequently criticize the claims made in the advertisements of the products tested, the agencies themselves have often been the subjects of severe criticism.



Many producers believe that their ratings are made on the basis of tests which are not thorough enough to be completely accurate. In spite of this criticism, retail dealers who handle products which have been recommended by these agencies are glad to quote their recommendations in persuading customers to buy those products.

One factor which the testing agencies themselves admit to be a handicap in their attempts to help consumers to buy more wisely is the fact that most of the consumers who subscribe to their services are in the middle income group, and few of their subscribers are in the lower income group which has the greatest need for the information and help which they provide. A very small proportion of the consumers whose family incomes are \$22.00 a week or less gets the information provided by these or any other agencies. Any method or agency which could give real help to this large group of consumers would perform one of the greatest possible services in the consumers' interest.

The value of testing and rating products depends on how well the testing is done and how available the results are to consumers about to buy. Seals of acceptance are usually a part of the label of the products which have been granted the seals. Ratings of consumer testing agencies are not thus available. A consumer must look up in advance the rating of any particular product. But in spite of many limitations of the testing of products as it is now carried on, the interested consumer can benefit considerably from the results of testing services. If he is wise he will get as much help from them as he can, but he will also realize that they do not offer him complete protection. They cannot be absolute proof against error. Some of them are more valuable than others. We do not yet have any way of testing the testers to see that they are performing the best service possible.

## BUSINESS TAKES STEPS WHICH HELP THE CONSUMER

We have already seen examples of several ways by which business helps to further our interests as consumers. We know that the chief aim of any business is to be successful and profitable, and we know too that often profits are made at the expense of the consumer. But it is equally clear that no business can continue to be permanently successful if it completely disregards the interests of consumers. We have noted that improvements in production making possible the large-scale manufacture of most products have helped consumers as well as producers. We have seen that new methods of distribution have their effects on the welfare of consumers, and that both efficiency and inefficiency in business can result in gains and losses to the general public.

One of the means by which business organizations offer certain kinds of protection to consumers is through trade associations. A trade association is an organization made up of many firms engaged in the same industry. They are interested in maintaining standards for their own welfare, and in preventing unfair competition. They also try to discourage any of their members from deceiving or defrauding customers, because of the unfavorable effects which such action would have on the industry as a whole. In order to build up and maintain a good reputation for the industry, they establish voluntary standards and try to enforce them among their membership. Some of them, like the American Gas Association, which we have already mentioned, test and approve products which come up to their standards. Others, such as, for example, the Association of Approved Business Colleges, admit to their membership only organizations which meet standards they have set up. Sometimes trade associations voluntarily accept standards for labeling products, so that we can now feel more secure in buying fabrics labeled "pre-shrunk" or "all wool."

The earliest important steps to raise the standards of advertising were not taken by consumers, but by organizations representing advertisers. *Printers' Ink*, a magazine devoted to the advertising business, has long recommended and worked for the passage of a model state law to enforce "truth-in-advertising." While many consumer organizations do not consider that this law offers complete protection to the consumer against misleading or incomplete advertising, it is without a doubt an important step in protecting us against the most objectionable advertising practices.

Some of the most active agencies through which business offers protection to consumers are the Better Business Bureaus which exist in over 60 of the larger cities, and which are affiliated with the National Better Business Bureau. The foundation of these organizations began in 1912, with the organization of a "National Vigilance Committee" to help in the enforcement of "truth-in-advertising" laws. In the beginning, Better Business Bureaus were organized primarily to carry out the work of this committee, but at present they are concerned with all business practices, whether they involve advertising or not. The Bureaus are non-profit organizations supported by local business men. Their immediate purpose is to protect their members from unfair advertising and selling methods of competitors, and to increase public confidence in advertising, salesmanship, and business methods. In carrying out this purpose, they offer protection to the consumer against many forms of fraud and deception. They attempt to educate consumers in money management, in buying, and in the care of merchandise. In some cases their attempts to enforce "fair trade" practices involve attempts to prevent the lowering of prices to consumers, as was the case in the example referred to on page 122.

Better Business Bureaus investigate thousands of complaints made by merchants and by consumers. Consumers are fre-

quently asked to invest money in unusual ventures, they are given opportunities to buy at fake bargain auctions, they are offered "rare opportunities" to acquire goods represented as genuine antiques, and unless they are alert, they may fall victim to many kinds of fraudulent schemes. Any consumer may request the local Better Business Bureau for information with regard to any selling or business plan which seems doubtful, and the Bureau will give him information free of charge. They will investigate, and if the scheme is fraudulent they will do their best to see that those engaged in the fraud will be arrested and prosecuted. If a consumer believes that he has been cheated or treated unfairly by a local retail store he may make a complaint to the Better Business Bureau and the Bureau will exert pressure on the store to correct any unfair action it has taken. Usually the store will give in to the pressure of the Bureau. As a result of such pressure, business methods of retail dealers in the better areas of most cities have improved. Often, however, it has resulted in the moving of unscrupulous dealers to the poorer sections of the city, where complaints are less likely to be made and where they will be less likely to be watched by the Bureau. This means that in this field, as in others we have noticed, less protection is offered to those consumers who need it most.

Within the past few years Better Business Bureaus have published a series of "Fact Booklets" on business subjects, written as aids to consumers in their everyday problems. Subjects such as advertising, borrowing, budgeting, buying used cars, cosmetics, furs, health cures, jewelry, legal problems, savings, schemes, and securities are some of those dealt with in these booklets. They warn consumers against deceptive business practices. They even point out that certain advertising claims, such as those regarding "health foods," preparations which will grow or nourish hair, "skin foods," and cures for

various diseases, are untrue. Single copies of these booklets are sent free to all who request them.

There is now developing among business organizations a greater interest in the point of view of the consumer. This is a direct result of the recent awakening of consumers themselves to their own needs and problems. Consumers have begun to question whether their welfare could not be increased by certain changes in business methods. Consumers are now protesting at the way their interests have been forgotten. They are even beginning to organize to work together to secure their needs. Business men hear those consumer protests, and many of them are making a serious attempt to meet the challenge of the consumers. Advertisers are beginning to worry about consumer criticisms of their work. Meetings and conferences of business men include important discussions of consumer demands. *Advertising Age*, the national newspaper of advertising, is offering \$1,000 in prizes for the best proposals for a program to improve the relationships between advertisers and consumers.

The business most directly in contact with the consumer is that of the retail dealer. Complaints by consumers reach the retailer first. If a consumer receives poor quality merchandise he blames the store from which he bought the goods, though the fault may lie more with the manufacturer than with the retailer. It is to be expected, then, that the business group most likely to lead in the attempt to meet new consumer demands is the group composed of retail merchants.

The American Retail Federation, a trade association composed of retail dealers, recently made a survey of consumer organizations, the people who make up those organizations, and the purposes of each consumer group. They made this analysis in order to understand the problems which they must face in meeting consumer demands. In the report which grew out of this survey it is admitted that "Retailings' efforts to meet the



3. Write to the agencies mentioned in this chapter to secure information on the work they do in the interests of consumers. Arrange an exhibit and write reports on their work. Class committees may be set up, each one to be responsible for the work of one agency.
4. Make a table or chart listing all the organizations which you can that help the consumer. Indicate for each agency: (a) the kind of organization and nature of its membership; (b) the kind of work done, including—if it is a testing agency—the kind of products tested; (c) who paid for the services; (d) to whom the services are available; (e) limitations of the services; (f) your estimate of the value of the services to the average consumer, (g) any suggestions for increasing the value of the service. "Labeling the Consumer Movement," by Werner K. Gabler, will be helpful in making this chart.
5. Read and report on one of the books listed under "References" on pages 319 to 328. In what way does the book contribute to consumers' understanding of their problems?
6. Write an article or give a talk on ways in which individual consumers can make use of the assistance that is available in solving their problems.





maintenance of certain standards of cleanliness, sanitation, purity, and honesty in the sale of products to consumers. It enforces laws against fraud. It may further provide assistance to consumers by means of education and information, and by the establishment of voluntary standards, the use of which, while not compulsory, will assist consumers in knowing the quality of products they buy.

#### SERVICES PROVIDED BY THE GOVERNMENT TO CONSUMERS

Many of the services which our government provides for us are so familiar that they are taken for granted. Some of them have been referred to in earlier chapters. It is only necessary to mention them here to bring out what an important part some of these major services play in our lives. The most common and widespread, as well as the oldest of the services which are provided by our state and federal governments are education, the postal service, and protection against crime, fraud, violence, and disorder, as well as the maintenance of army, navy, and air forces for national defense. City and other local governments play an important part in some of these services, and in addition provide protection against fire, maintain pure water supplies, and sometimes furnish such commodities as electricity and gas. The Post Office Department has, through postal savings, provided a means for saving and investing money. More recently, through the Federal Deposit Insurance Corporation, the government has provided insurance against loss for persons depositing money in national and state banks and savings and loan associations. The important social security services provided by the government have been discussed in Chapter VII.

The educational and information services provided by the federal government are numerous and valuable. Perhaps the most widely used are those of the Children's Bureau in the Department of Labor. Among its many other duties this Bureau publishes and distributes free to those who request them some

of the best bulletins available on the care of infants and children. The Department of Labor also has a Consumers' Project, which is engaged in research on consumer problems and maintains an advisory and information service for consumers. The Consumers' Project publishes a number of bulletins, many of which are distributed free. An example of one of these is "The Home Medicine Cabinet," which lists remedies needed for home use, describes those which are safest and most effective, and suggests how they may be purchased economically. The Bureau of Labor Statistics, also in the Department of Labor, is charged with collecting and publishing statistics on all matters pertaining to labor, which includes means for promoting the welfare of wage earners and therefore includes information relating to consumer interests.

The Department of Agriculture has under its jurisdiction a number of the federal government's activities relating to consumers. The *Consumers' Guide* is published twice a month by the Consumers' Counsel Division, and is sent free on request. Articles in that publication cover a wide range of consumer activities and interests. Study outlines, bibliographies, and surveys relating to consumer problems are also issued by the Consumers' Counsel Division. The Bureau of Home Economics in the Department of Agriculture conducts scientific research for the benefit of homemakers and consumers on such subjects as foods and nutrition, economic problems, textiles and clothing, housing and equipment, and household management generally, and makes these results available to the public. The Office of Information of the Department of Agriculture distributes free copies of numerous bulletins on how to buy and prepare foods of many kinds, and on prices and available supplies of food products. The Agricultural Marketing Service develops standards and grades for agricultural products, and the Bureau of Animal Industry carries out the federal meat inspection laws. The work of the Bureau of Dairy Industry is

of value to consumers as well as to dairymen, because it promotes increased sanitation and better quality in dairy products.

The Post Office Department helps to protect consumers against fraud. The use of the United States mails for the purpose of defrauding consumers by means of false promises is a crime against the federal government. Postal inspectors are constantly on their guard against such schemes. They may take action as a result of complaints from consumers who have been victims of fraudulent schemes, or they may start investigations even when there have been no complaints. If investigators find evidence which shows that any persons or firms are guilty of such schemes, the offenders are forbidden the use of the mails, and the criminal prosecution of them is turned over to the Department of Justice, and handled through the federal courts.

Swindles and schemes which use the mails to defraud are of many kinds. One kind appeals to the desire to make money easily and quickly, and involves such things as fake investments in mines and oil fields and lotteries of various kinds. Another kind appeals to the need of a job or of security. In one case \$10.00 apiece was taken from many unemployed in return for a promise to make them district supervisors for the distribution of circulars, but there were no circulars to be distributed, and the ten-dollar contributions were gone. Still another kind of mail fraud tries to sell devices or drugs to make the victims beautiful. A fifteen-dollar helmet, with a little blue light inside, was sold by mail with a guarantee to cure baldness; and another device was sold to be worn over the nose to develop a handsome profile. The most vicious form of mail fraud is that which sells worthless "cures" for various ailments. One man, before he was stopped, did a business of \$1,500,000 a year, under 18 different names, by fitting glasses by mail. Worthless "tuberculosis cures" sold by mail have probably resulted in countless deaths from tuberculosis because their use prevented those who bought such "cures" from getting medical

attention. When the government succeeded in stopping the use of the mails by three brothers who had been very successful in selling one such cure, it found that it could take action against only two of the brothers. The third had died—of tuberculosis. The Post Office Department estimated that in 1937 the public had been swindled out of \$7,000,000 by medical frauds alone. The damage to health could not be measured.

The number of cases involving all kinds of fraudulent use of the mails which were investigated by the Post Office Department in 1937 was 5,429. Over 500 individuals or concerns were forced to discontinue their swindling by mail. In just 98 of these cases the loss to the public has been estimated at \$17,000,000. The Department reports that the number of complaints is constantly increasing. This does not necessarily indicate that there are more fraudulent schemes being tried. It may mean that consumers are becoming more alert, and are more frequently exercising their right to appeal to the Postal Service when the mails bring them offers that seem to be suspiciously promising.<sup>1</sup>

The United States Public Health Service is a part of the Federal Security Agency. One of its most important activities is comprehensive and intensive research in the cause and prevention of disease. It conducts surveys of the health of the general population and of health facilities available. It investigates methods of sanitation, and develops plans for better sanitary control of milk and other food products. In its efforts to prevent disease and to control epidemics, the Public Health Service cooperates with both public and private health and social service agencies in the states. Some of the greatest recent advances in the field of health have resulted from the activities of this agency of the government.

A new and different kind of service for consumers is pro-

<sup>1</sup> Post Office Guardians of Consumers, *Consumers' Guide*, April 11, 1938, pp 7-9

vided by the Federal Housing Administration. The National Housing Act, which created the Federal Housing Administration, was passed for the purpose of encouraging improvement in housing standards and conditions, primarily by making it easier for people to borrow money for the purpose of building or improving homes. During the years preceding the passage of this act there had been comparatively little home building. Millions of consumers who had all they could do to provide the more pressing immediate needs of food and clothing had to neglect their need for better shelter. There was great need for improvement in housing, but little money with which to pay for that improvement. The Federal Housing Administration is now authorized to insure loans made to build or improve dwellings. The FHA does not itself lend the money. It simply guarantees that loans made by regular lending agencies, such as banks, insurance companies, building and loan associations, and credit unions, for the purpose of building homes, will be repaid. The loans are secured by mortgages, and the mortgages are insured by the FHA. Because of the FHA mortgage insurance, the agencies lending the money know that they are not going to lose the money that they have loaned, and therefore they are willing and eager to lend money at low rates of interest.

Thousands of new homes are being built as a result of the FHA. On new homes which are occupied by their owners the FHA will insure mortgages covering as much as 90 per cent of the cost of the home. The consumer who can afford to make a down payment of 10 per cent can have his own home, and often finds the monthly payments, which cover the interest and part of the principal, to be less than the amount of money he would have to pay as rent. But the FHA is not content with merely insuring mortgages. It will insure those mortgages only if the house meets certain standards of construction and if it is located in a desirable area. The consumer is therefore pro-

tected against the mistakes which he might make in choosing an undesirable location, and against the waste of money which he might incur because of his lack of knowledge of how houses should be built and what standards should be maintained. Before the FHA insures a mortgage, its officials inspect the plans, and check on numerous details of construction such as strength of materials, kind of insulation, amount of window space, and the degree of resistance to fire. The FHA also issues free publications on recent developments in building construction and new building materials, on modern design, on principles of small-house planning, and on contract documents for home building.

Other services of the federal government to consumers are numerous and scattered through many departments and agencies.<sup>2</sup> There is one federal activity especially worth noting, not only because of its value to large numbers of consumers but because it is an excellent illustration of the way in which the government may make it possible for consumers to get services which they need, but which are not otherwise available.

#### RURAL ELECTRIFICATION

In 1935 about one farm in every ten in the United States was supplied with electricity from a central station. In spite of the fact that electricity had become one of the most useful of modern scientific developments, in spite of the fact that it had reached the point of being regarded as a necessity in city and village homes, nine farmers out of ten were still without this service. At the same time nearly 100 per cent of the farms in The Netherlands, 90 per cent of the farms in France and Germany, 85 per cent of those in Denmark, and 75 per cent

<sup>2</sup> For further information, use "Consumer Services of Government Agencies," Consumers' Counsel Division, A A A, U S Dept Agriculture, and "Digest of the Purposes of Federal Agencies," and the "U S Government Manual," U S Information Service, Washington, D C

of those in Sweden were served by electric power lines.<sup>3</sup> The reason for this lack of rural electrification in the United States was not that our farmers, who are in many respects ahead of those in other countries in the use of modern labor-saving inventions, did not want electricity. It was rather that the electric utility companies that supplied most of the electricity in this country did not believe that it would be profitable to extend electric service to rural areas. In much of the country, farms are far enough apart to make it difficult or impossible for the farmers themselves to pay for the initial cost of building the high-line required to bring the electricity to their farms. The utility companies were not willing to take the risk of building those lines and paying for their construction out of profits received from the use of electricity. There were millions of consumers on American farms who needed and wanted electric light and power who could not obtain this service. It was to remedy this situation that the Rural Electrification Administration was created by an Executive Order of the President in May, 1935, and made permanent by the Rural Electrification Act passed by Congress in 1936.

The function of the REA is to provide federal loans for the purpose of constructing transmission lines, and if necessary, generating plants, for the distribution of electricity to rural areas. Its loans are made at low rates of interest and are to be paid back within a period of 25 years. They may be made to persons, corporations, states or subdivisions of states, and to cooperative and non-profit associations organized for the purpose of furnishing electric energy to rural areas. Before loans are made, the REA must give its approval to the plan, or "project" as it is called, for distributing or producing electricity. Approval is given only to those projects which are likely to be successful, both in service to farm consumers and in

<sup>3</sup> Rural Electrification Administration, *A Guide for Members of REA Cooperatives*, Washington, June, 1939, p. 16

ability to pay back the money borrowed. There must be, for example, an average of two consumers who will use electric power in each mile of line constructed. There must be a sufficient number of consumers within the project area who will use electricity to make the whole project a sound business enterprise. REA officials supervise the program. They see that high standards of construction and materials are maintained, and that the wiring of farms and farm homes is done correctly. They are conducting effective educational campaigns to increase the use of electricity and of modern electrical appliances, and to inform these new consumers of electrical energy of the many ways in which electricity can make farm work and housekeeping easier, home life more pleasant and more healthful, and farm production more profitable.

No consumer who lives on a farm needs to be told of the importance of electric energy. Electricity provides even more important services to rural consumers than to those in cities and villages. Farmers in areas served by REA projects no longer need to depend on kerosene or gasoline lamps and lanterns, with their comparatively poor light and comparatively high risk of fire. No longer must they pump water by hand, windmill, or gasoline engine. They can have radios without the constant replacement of batteries formerly necessary. The farm home can be supplied with electric refrigerators, stoves, washing machines, irons, toasters, and all of the other modern appliances. In addition to these more common uses of electricity, farmers may have electric fences consisting of one wire carrying enough electricity to give a mild shock to any animal trying to go through the fence. They may have electricity in their poultry houses, so that lights may be turned on in the morning before daylight, and in the evening after sunset. To the chickens, this makes winter days seem longer, and the hens eat more feed and lay more eggs. Electric motors can do much of the work around the farm, such as grinding feed and sawing wood.



When the federal government started the REA program in 1935, it offered to consumers in rural areas a service that they really needed. In doing so, it does not compete with private industry, but rather enters a field which private industry had regarded as unprofitable. Nor does the government give money to develop REA projects. It does finance the supervisory, advisory, and educational work, but the money used for the projects themselves is lent by the government and is being repaid to the government. Money is lent at rates of interest lower than those which most farmers have to pay when they borrow money from the usual sources, but the rates are no lower than those often paid by large industries that borrow money.

REA projects have proved to be of value not only to rural consumers, but even to private utility companies. Most REA projects are for the distribution of electric energy, but not for its production. If there is a source of power available at reasonable rates from an electric generating plant owned either by a private utility company or by a city or village, the REA project buys its electric current from that source. Only when such a source is not available does the REA lend money for the building of a generating plant. By July, 1939, 62 per cent of the electric current used by REA projects was purchased from private utility companies, 21 per cent was purchased from municipal plants, and 9 per cent was produced by generating plants financed by the REA, with the remaining 8 per cent furnished by the Tennessee Valley Authority and other sources.<sup>4</sup> By January 1, 1939, when REA had been functioning for less than four years, the number of farms which received high-line electric service had doubled. Twenty-one per cent of the total then had electricity.<sup>5</sup>

<sup>4</sup> Rural Electrification Administration, *The Electrified Farm of Tomorrow*, July 1939, Washington, Government Printing Office, p. 76

<sup>5</sup> Rural Electrification Administration, *A Guide for Members of REA Cooperatives*, Washington, June, 1939, p. 16. The REA points out that a part of this increase has been due to private utilities, encouraged by the success of REA lines to extend their own lines into rural areas.

About 90 per cent of the rural electrification projects financed by the REA are cooperative organizations composed of the consumers who make use of the electric energy. Loans are available to private utilities for expansion into rural areas, but few have taken advantage of them. In the succeeding chapter we shall see how these rural electric cooperatives are organized, and why so many have taken advantage of the services of the REA.

#### FEDERAL REGULATION OF THE SALE OF FOOD, DRUGS, AND COSMETICS

Local governments, state governments, and the federal government all have laws to protect consumers from impure, misbranded, and harmful products. State laws and local ordinances can regulate all products sold within the area to which the laws apply. But federal laws can regulate only those products which enter into interstate commerce, that is, those products which are shipped from one state to another. The first federal Pure Food and Drug Act was passed in 1906. Before that time the states had passed a great variety of laws affecting the purity of foods and drugs made and sold within their borders. But regulation carried out by state governments alone met with a number of difficulties. There is a question as to what extent, under our Constitution, the laws of one state may restrict goods shipped in from other states. Manufacturers who sold their products in many states found it confusing, and often costly, to meet the different requirements of the various states. The passage of a federal food and drug law has helped to make state regulations more nearly uniform. Since its enactment, many states have patterned their laws after the federal law.

The Pure Food and Drug Act which was passed by Congress in 1906 related to the adulteration and misbranding of food and drug products in interstate commerce. Its provisions were

enforced by the Food and Drug Administration in the United States Department of Agriculture.<sup>6</sup> Violations of the provisions of the law could be punished in two principal ways. Food and drug products which were adulterated or misbranded could be seized and confiscated by the government, and persons or firms that violated the law were subject to criminal prosecution.

The law of 1906 prohibited the adulteration and misbranding of food and drugs. The adulteration of any product means the addition to it of any substance which is poisonous, harmful, and undesirable. Thus the law prohibited the addition of any poisonous substance to food and drugs. Apples, for example, must be sprayed with some solution, usually made of lead and arsenic, in order to prevent their being destroyed or damaged by worms before they ripen. No one wants worm-eaten apples. Neither does anyone want to eat apples covered with a film of lead and arsenic, for both lead and arsenic are poisons. Therefore apples which have been sprayed must be washed with a solution which removes the residue of the spray before they are offered for sale. If this washing process is omitted, or if it is carelessly done, traces of the poison may be left on the fruit. If those traces which remain are sufficient to be of possible harm to persons eating the apples, then the fruit is adulterated, and its shipment in interstate commerce is contrary to the provisions of the food and drug law. But before the law was amended in 1938 there was no agency which could determine just how much was enough to be harmful and therefore illegal. Each time the Food and Drug Administration officials confiscated fruit on the grounds that too much of the poisonous spray remained, the case would have to be tried in court, and expert chemists would have to testify with regard to the possible danger to consumers from the spray residue found on the fruit. Even after one court had determined that

<sup>6</sup> Note On June 30, 1940, the Food and Drug Administration was transferred from the Department of Agriculture to the Federal Security Agency

a specific amount was dangerous, future cases still had to be decided all over again.

There are many other kinds of adulteration which have been checked by officials of the Food and Drug Administration. Shipments of tomato catsup containing mouse hairs, shipments of maple syrup containing lead, canned crab meat containing dirt, canned peaches containing some "foreign substance having the odor of kerosene," are examples of products seized by the FDA. Notice that all of these products were illegal because some harmful substance had been added to the food. If the food had been harmful because it contained some poisonous substance which was a part of the food itself, it would not have been illegal, because, to come under the term "adulterated" the harmful substance had to be *added* to the food.

Misbranding was also forbidden under the first law. Misbranding means false labeling. Food may be harmless and wholesome and still be falsely labeled. Under the misbranding provision of the food and drug law a product labeled "olive oil" which was found to be really cottonseed oil was seized. More serious offenses are those in which labels on patent medicines make untruthful claims. The manufacturers of a tonic which claimed to be a cure for pneumonia were prosecuted under the food and drug law because their product had been misbranded, since the label claimed that the medicine would do more than it could possibly do.

In 1930 the McNary-Mapes amendment to the Food and Drug Act was passed at the request not of consumers but of manufacturers of canned products. This amendment requires that all canned goods which fails to come up to minimum standards should be labeled "sub-standard," and that all cans must be filled up to a certain minimum level, or else be labeled "slack fill." Since 1930, the Food and Drug Administration can confiscate cans of cherries which contain too many pits unless those cans are labeled "sub-standard." It can charge a

manufacturer with misbranding his product if he sells it in containers that are not properly filled, unless the label carries the term "slack fill."

The Food and Drug Administration cannot enforce the law by inspecting the products when they are manufactured. When a product which is in interstate commerce is suspected of being in violation of the law, it is tested by federal officials. If it is adulterated or misbranded the officers of the FDA start court action. Frequently no one will claim the product. If the manufacturer wishes, however, he may contest the action by presenting his case in court. After the hearing the court determines what is to be done. The manufacturer may be fined. The court may order the product destroyed, which is usually done when it is poisonous or harmful. If the product is not harmful in itself, as is frequently true in cases of misbranded products, the court may order the United States marshal to sell the product and turn the proceeds over to the United States Treasury.

The disposal of sub-standard butter by the courts is an interesting illustration of the handling of products which are in violation of the law, even though they are wholesome. Butter is the only product which is defined by federal law. It must contain at least 80 per cent of milk fat in order to be legally sold as butter. This provision is necessary to prevent the sale of a product containing a high proportion of water. Butter containing too much water may be perfectly wholesome and appetizing, but it is not fair to compel consumers to pay for water when they think they are buying butter. Therefore the law defining butter was passed. Each year the FDA officials seize dozens of shipments labeled butter which are misbranded because "a product containing less than 80 per cent of milk fat had been substituted for butter." In such cases the product is not destroyed. The court may order that it be given away. Frequently it turns the product back to the creamery which

produced it with orders to rework the "butter" so that it shall contain not less than 80 per cent milk fat.

The Food and Drug Law of 1906 was a worth-while beginning in protecting consumers, but it had many defects. In many ways it was a compromise to begin with, and important changes in the production and manufacture of food and drugs over a period of 32 years made the law even less effective in the years preceding the passage of the new law in 1938.

One important defect in the old law was its failure to regulate many products which did not come under the narrow definitions of "food" and "drugs." Cosmetics, for example, were not covered by the law until 1938.

The first law on record in America relating to cosmetics provided that any marriage could be set aside if the wife had misled and deceived her prospective husband by the use of cosmetics during the period of courtship preceding marriage.<sup>7</sup> This Pennsylvania law of 1770 attempted to prevent deception, but it cannot be regarded as a law to protect consumers. It has been forgotten for a century and a half. But within recent years laws of a different kind to regulate cosmetics have become necessary.

Most cosmetics, except hair dyes and skin bleaches, are harmless, and most manufacturers of cosmetics are careful not to make a product which might injure the user. Yet there are hundreds of cases on record of serious damage to health and beauty caused by cosmetics. Eyelash dyes have caused blindness. Hair dyes and freckle creams have produced serious skin disorders. Perhaps the most shocking of all were cases of paralysis and death resulting from the use of a cream sold for the purpose of removing superfluous hair. This cream was advertised in many reputable magazines and sold by reputable stores. It contained rat poison. Yet the Food and Drug Administration, under the old law, could do nothing to prevent its sale, be-

<sup>7</sup> *Consumers' Guide*, Nov 7, 1938, p 7

cause it was neither a food nor a drug under the terms of the law. Its sale was finally stopped, not by law, but because its manufacturer was forced into bankruptcy by the number of damage suits brought against the company. Examples like these resulted in the public demand that the FDA should regulate cosmetics as well as food and drugs.

Cosmetics were not the only products left out of the earlier law. Drugs were defined as products used to cure, relieve, or prevent illness. This definition did not include certain "health tonics." Nor did it include compounds advertised for reducing weight. The law did not regulate the sale of devices advertised to promote health, such as sun lamps, "health shoes," or electric skull caps claiming to "make hair grow on bald heads."

Protection of consumers under the law of 1906 was limited in several other ways. The Food and Drug Administration could act to prevent false labels, but it could not prevent false advertising. The consumer could read an advertisement in which marvelous claims were made for a patent medicine. Unaware of the fact that those claims were false, he would buy the medicine, without noticing that the claims printed on the label were much more moderate than those of the advertisement. Alert consumers protested that real protection would be possible only when advertising could be subject to the same rules as those which apply to the labels.

Enforcement of the rules regarding labeling was made difficult, because only those manufacturers who knew that their labels were false were to be considered guilty. A manufacturer might sell a medicine which, according to its label, would cure tuberculosis. In spite of the fact that medical science knows of no medicine that can cure tuberculosis, the government could not prove that this manufacturer knew that his claims were false. And because it could not be proved that he was guilty of deliberately deceiving consumers, he could not be fined or punished in any way. Many similar cases occurred each year.

Even when guilt was proved, the punishment was often very light. Many courts imposed fines so small that they could be disregarded. Wm. G. Campbell, chief of the Food and Drug Administration, told of two instances in 1937. In one case a fine of \$2.00 was imposed for shipping "filthy and decomposed walnuts," while in another instance the offering for sale of a practically worthless product as a treatment for serious diseases of the eye resulted in a fine of \$1.00 and costs of \$35.00. Some courts were fortunately less lenient. In one case a canner pleaded guilty to the sale of dirty canned spinach, but protested against a large fine on the grounds that such a penalty might cause his business to fail. This time the judge remarked that if the defendant was unable to manufacture clean food he had better get out of business.<sup>8</sup>

There was nothing in the 1906 law to prevent the sale of food and drugs in deceptively large containers which misled consumers into believing that they were getting a larger quantity than was actually the case. The amount of the net contents must be printed on the label, but most consumers do not read labels carefully enough to check on the net contents before making their purchases. The nature of the contents did not have to be stated on the label, and as a result consumers would often pay high prices for a "secret formula" made up of very ordinary ingredients.

It was to be expected that, as the shortcomings of the law became increasingly apparent, there would be demands for a better law. After many attempts in successive sessions of Congress, the bill which finally became a law in 1938 was introduced. As originally drawn up, the bill contained many provisions which would increase the protection given to consumers. Some of these were modified or stricken out before the bill was finally passed. There was bitter opposition to the new bill, especially from some of the manufacturers of patent medicines. One

<sup>8</sup> *Consumers' Guide*, Nov 29, 1937, p 5



Congressman even offered an amendment to the bill which would exempt a certain asthma remedy produced in his home state from some of the proposed regulations. Although this so-called "asthma bill" was laughed out of Congress, the opposition was able to win on many points. In several important respects, however, the new law offers increased protection to consumers.

All cosmetics except soap are now included in the provisions of the law. The law forbids false or misleading labeling of cosmetics, and prohibits the sale of all cosmetics which may be harmful to users, except coal-tar hair dyes. Such hair-dyes may still be sold, but they must carry labels which caution the consumer thus: "This product contains ingredients which may cause skin irritation on certain individuals. . . . This product must not be used for dyeing the eyelashes or eyebrows. To do so may cause blindness."<sup>9</sup>

The new law prohibits the interstate shipment of all food which may be injurious to health, whereas the former law prohibited only that to which injurious substances had been added. The Secretary of Agriculture was given authority to make rules, after public hearings have been held, to regulate the amount of spray residue which may be permitted on fruits offered for sale. In the case of any other food product to which ingredients which may be harmful must be added in the process of preparation or manufacture, similar rules may be made defining the maximum amount permitted under the law. Candy and confections are made safer for children, for it is no longer permissible to put metal trinkets or toys, or any other inedible substances, into packages of candy or popcorn. Devices such as sun lamps and other apparatus supposed to remedy or cure disease or relieve pain are now subject to provisions of the law. Drugs must now carry on their labels warnings against probable misuse which might be dangerous to health, and any

<sup>9</sup> *Consumers' Guide*, Nov. 7, 1938, p. 8

drug which is habit forming must be labeled with a warning to that effect. The use of deceptive containers for foods, drugs, and cosmetics is forbidden. No longer must the government prove that a person violating the law had knowledge that his claims were false and that he was guilty of a deliberate attempt to deceive. Many other provisions provide for better labeling practices than were required under the former law.<sup>10</sup> A product may not be labeled "strawberry jam" unless it contains a sufficient amount of strawberries. It is now possible to impose higher penalties for violation of the law than those permitted before 1938.

These changes give consumers more protection. But in some respects the new law makes it even more difficult than it was before for the Food and Drug Administration to prevent the sale of food and drug products that are illegal. Under the previous law, it was possible for federal officials to seize as many shipments of any certain illegal product as they could find. This procedure, called "multiple seizure," meant that if a shipment of misbranded or adulterated food were discovered in one state officials could find out where that food had originated and where other shipments of the same food had been sent. They could then seize those shipments wherever they might be found. This made it possible to stop the sale of illegal products on a fairly large scale. Under the new law multiple seizures are permitted in the case of adulterated foods, drugs, devices, and cosmetics. But in cases of misbranding, seizure is limited to a single interstate shipment of the product, unless the misbranding has been the subject of a previous court decision, unless the misbranded article is dangerous to health, or unless its labeling is fraudulent or "would be in a material respect misleading, to the injury or damage of the purchaser or consumer."

<sup>10</sup> A digest of the new federal Food, Drug, and Cosmetic Act can be secured from the Food and Drug Administration, Federal Security Agency, Washington, D. C.

The effectiveness of this part of the law will depend to a great extent on the way in which the courts interpret the phrase "in a material respect misleading." When enforcement officials seize a misbranded product they will be handicapped by uncertainty as to whether the misbranding is serious enough to permit them to make multiple seizures.

Another difficulty in the enforcement of the law arises out of the provision that the shipper or owner of the goods seized may demand that the trial be held near his principal place of business. If, for example, fruit containing poisonous spray residue should be shipped from California and seized in Michigan, the shipper could insist that the trial be held in California. The government finds it difficult to win such a case in the district in which the fruit was produced. Under the old law, trials were held in the districts where the seizures were made, which ordinarily were the districts in which the misbranded or adulterated products were about to be sold to consumers.

Perhaps the best way to understand the kind of protection consumers receive from the activities of the Food and Drug Administration is to read some of the accounts of its work. The FDA issues "Notices of Judgment under the Food and Drug Act," and will send copies free to all who request them. It also issues information for the newspapers with regard to seizures made and trials held. Some of the actions reported in January, 1940, will illustrate the kind of work done. During December, 1939, the Food and Drug Administration seized 3,525 pounds of walnut meats, 2,800 pounds of almonds, 140 pounds of chopped nuts, 6,900 pounds of packaged raisins, 10,100 pounds of rice, 81 sacks of flour, and 11 cases of tomato juice, all because they were infested with insects. During the same month 6,200 pounds of pecans, 11,935 gallons of tomato pulp, 417 cases of tomato catsup, 46 barrels of dressed poultry, 168 pounds of frozen fish, 510 pounds of boneless ham shoulders, 4,900 pounds of Brazil nuts, 575 pounds of

walnut meats, and several other products were removed from the market because they were decomposed. Sixteen thousand pounds of fresh cabbage and 26 boxes of fresh pears were confiscated because they had too much arsenic and lead spray residue. One hundred thirty-eight cases of peanut butter were found to contain sand and ground glass. Low-fat butter and short volume tomato juice were seized. Boxes of candy were confiscated because they contained some compartments which were empty, and the boxes were therefore deceptive. Six hundred seventy-eight cartons of tooth-paste were taken because the cartons were unnecessarily large for the size of the tube which was inside. Many kinds of drugs and medicines were removed from the market because of false and misleading claims on their labels, and because they were harmful or not up to standard. Bandages, surgical dressings, and gauze were seized because they were not properly sterilized. Courts imposed fines of from \$25.00 to \$500.00 for violations of the law.<sup>11</sup>

Consumers were protected from all of these and many other harmful products. We should remember, however, that officials of the Food and Drug Administration cannot find all of the harmful and misleading products on the market. Their appropriations are too low to permit as large a staff as would be desirable. Some of the violations of law involve only economic losses to consumers, while other violations threaten serious risks to health. When money and workers available are not sufficient to investigate all cases, the Food and Drug Administration officials give their first attention to checking the sale of products dangerous to the public health. They can spend each year an amount equal to about one and one-fourth cent for each person in the country. They cannot inspect at factories, but must wait until products have been shipped. They are still handicapped by the fact that punishments for violations of the law are so

<sup>11</sup> Press Release, U S Dept. of Agriculture, Food and Drug Administration, Jan 22, 1940.

light that unscrupulous persons do not mind running the risk of a fine. In January, 1940, the sale of a drug bearing false and fraudulent claims to be a remedy for pneumonia brought a fine of only \$25.00. Another so-called remedy which not only made false claims but which contained a dangerous drug, resulted in a fine of only \$100.00.

The effectiveness of the law of 1938 in protecting consumers from adulterated and misbranded foods, drugs, and cosmetics can be finally determined only after it has been in effect for several years. Much depends on the attitude of the courts in interpreting and enforcing the law, as well as the size of the appropriations made for the Food and Drug Administration. Some groups of consumers opposed the new law when it was up before Congress because they believed that it did not offer adequate protection. Other groups tried to get better provisions, but, even when they failed to get all the protection they wanted, supported the act because they believed that some improvement was better than none at all. The demands and interests of consumers had a great deal to do with those improvements which were made, but in spite of the activities of several consumer groups as well as those of other important organizations such as the League of Women Voters, groups which opposed provisions for greater consumer protection were able to eliminate from the bill some of its best provisions. Consumers who criticize the law because it does not offer as much protection as they would like should remember that it is up to them to make their interests known if they want greater protection.

#### THE FEDERAL TRADE COMMISSION AND CONSUMER INTERESTS

One of the criticisms which, as we have seen, was made of the original Pure Food and Drug Act was that, while it contained provisions which prohibited false labeling, it did not regulate advertising. When the new law of 1938 was being considered, it was proposed that the Food and Drug Adminis-

tration be given the authority to prevent false advertising as well as false labeling of food, drugs, and cosmetics. This proposal was not adopted, but during the same session of Congress that authority was given to the Federal Trade Commission by the Wheeler-Lea Act.

As we have noted elsewhere, the Federal Trade Commission was created in 1914 for the purpose of preventing unfair methods of competition in commerce. False advertising is sometimes an unfair method of competition, and under the law of 1914 the Federal Trade Commission could stop untruthful advertising if it could prove that such advertising injured a competitor of the company that was responsible. But unless a competitor was injured, the commission could take no action against misrepresentation which was harmful only to consumers. A definite decision on this point was made by the Supreme Court in 1931 with regard to a drug advertised for use in reducing weight. It was proved that the advertisements of this drug were false and that they had resulted in injury to consumers. But because it was not proved that the false advertising had injured a competitor who was selling another medicine for reducing weight, the Court held that the Federal Trade Commission could not prevent the type of advertising used. The same ruling held with regard to the advertising of all products.

The Wheeler-Lea Act of 1938 increases the powers of the Federal Trade Commission, so that it can now order persons and firms to cease making false claims in the advertising of any product, even though consumers are the only ones injured by those false claims. The Commission no longer needs to prove that the harmful effects extend to competitors as well as consumers. The new law also makes it easier to enforce the orders of the Commission, and it gives it special powers over the false advertising of foods, drugs, devices, and cosmetics. In cases involving these classes of products, orders of the Federal Trade Commission may be enforced by means of criminal prosecution

if the products which are falsely advertised are injurious to health or if the false claims are made with intent to defraud or mislead. A guilty advertiser may be punished by a fine up to \$5,000 or imprisonment up to six months, or both.

The law defines a "false advertisement" as one which is "misleading in any material respect." Here the protection offered by the law will depend on the interpretation of this definition. Is it, for example, "misleading in a material respect" to leave out of the advertising the fact that a medicine may be harmful to certain persons, although it will help others? How misleading is it to claim that a shirt will "wear like iron"? Is a medicine injurious to health when, although the medicine itself is harmless, it is used by a consumer in the hope that it will cure a serious disease which it cannot possibly cure? These are some of the questions that must be answered by the courts in the enforcement of the laws against false advertising. The Wheeler-Lea Act has been in force only a short time, yet it is interesting to compare the advertisements which now appear with those which were printed before the act went into effect. Claims of various medicines to "cure" certain diseases have been changed to "relieve the symptoms" of the disease. Advertisements of nose drops now carry the warning: "Not recommended for children under two years of age or for people in weakened condition." Extreme statements have been qualified. The consumer must always have the responsibility of carefully reading advertisements as well as labels, but in many ways he now has a better chance to learn the honest facts about the products he buys than he had a few years ago.

#### OTHER GOVERNMENT REGULATIONS OF ADVERTISING PRACTICES

There are some other duties of the federal government in regulating advertising that are of interest to consumers. We are interested not only in spending money for our immediate needs, but also in saving and investing it in order that we may

have enough for our needs in the future. Thousands of consumers purchase stocks and bonds for purposes of saving and investment. Since 1933 the Securities and Exchange Commission has been authorized to protect the purchasers of stocks and bonds from fraud. The law requires that before securities may be sold in interstate commerce certain kinds of information with regard to those securities must be registered with the SEC, and that such information must be available to anyone who is interested in purchasing the securities. Here again consumers must themselves be responsible for investigating the various ways in which they propose to invest their money, but the federal government offers them protection against fraud and the opportunity to get certain essential information before they buy securities.

#### GOVERNMENT REGULATION OF MEAT SOLD IN INTERSTATE COMMERCE

Whenever meat and meat products are sold in interstate commerce the federal government exercises an efficient control of their purity and wholesomeness. Since 1906 the Meat Inspection Act has required that all meat which is transported from one state to another must be inspected and passed by officials of the Bureau of Animal Industry in the United States Department of Agriculture. This control is much more complete than that which can be carried out under the Food and Drug Administration because the inspection is made at the time the meat is being slaughtered and prepared for market. Before it is ever shipped from the slaughter house or packing plant the meat must be stamped with labels stating that it has been inspected and passed by federal officials.

Under the Meat Inspection Act the government requires certain standards of cleanliness and sanitation in packing houses and plant facilities. The live animals are inspected first, in order that any that might be diseased may be eliminated. Then the



slaughtering and packing is inspected. The cost is paid by the federal government, and amounts to less than seven-hundredths of a cent for each pound inspected. While this small cost is eventually paid by the consumers through their federal taxes, even then it means that for every 15 pounds of inspected meat the consumer buys he must pay about one cent to make sure of its wholesomeness and purity.

All packing houses and slaughter houses that handle any meat which is to be shipped in interstate commerce are subject to this inspection, even though a good proportion of the meat they handle is sold within the state. Only those with an exclusively local business are exempt from federal regulation, and even these are sometimes covered by local or state laws. About two-thirds of all the meat used in the United States is inspected by the federal government.

#### THE GRADING OF MEAT BY THE FEDERAL GOVERNMENT

The consumer must not confuse the inspection of meat with the grading of meat. Federal inspection, as described above, guarantees purity, but it does not give any other indication of quality. Meat which is inspected and stamped may be lacking in flavor, or it may be very tough. It may be too fat or too lean. The consumer is assured only that it is wholesome. But the federal government does provide, through the Agricultural Marketing Service of the Department of Agriculture, a service by which federal officials grade meat products as to quality. This service is permissive, whereas the inspection for purity is compulsory. Meat companies who want government grading may request government officials to grade their meat and put the stamp indicating the grade on all meat thus examined.

When beef is graded by the Agricultural Marketing Service, the very best cuts, coming only from young animals that have been fed those feeds which result in the best meat, are graded and labeled U. S. PRIME BEEF. There is never much of this

highest quality beef on the market, since only a limited number of animals sold can furnish meat which will conform to U. S. PRIME specifications. The next quality is U. S. CHOICE, an excellent grade of beef. Grades of beef go on to U. S. GOOD, U. S. FAIR, and U. S. COMMON. The government will grade veal, lamb, and mutton as well as beef, and certain processed meats such as sausage, bacon, and frankfurters. The grade labels are stamped on the meat with harmless purple ink, and the labels are so close together that they will show on all but the smallest cuts of meat.

This grading service, while not compulsory for anyone, is available to all who ask for it and who will pay the small fee required. Packers, wholesalers, retailers, and others make use of government meat grades. Every year the purchase of meats by grades becomes more popular. Some cities, such as Seattle, require government grading of all meat sold within their areas. Some of the better restaurants even have notices on their menus reading "All our steaks are U. S. PRIME beef."

#### OTHER VOLUNTARY GRADING SERVICES OF THE FEDERAL GOVERNMENT

There are many other products which government officials will grade, provided that those who handle those products request such services. Butter is one of these. We have seen that butter must be at least 80 per cent milk fat. It must be pure and free from adulteration if it is to comply with the Pure Food Law. These requirements are compulsory. In addition, butter may be graded as to quality. When butter is graded, it is scored a certain number of points. That which scores 93 is best quality. All butter which scores at least 92 is given a certificate of quality. In 1938 nearly 18 per cent of all butter sold in the United States had been voluntarily graded by this method.

Similarly, government officials have set up standards, in cooperation with producers and consumers, for fresh fruits and

vegetables, and for many varieties of canned fruits and vegetables. This grading is likewise voluntary, and must be paid for by those who request the grading service. If canned products are graded in large quantities, the cost is about one cent for 10,000 cans. In this case, as with meat grading, the use of government grades will increase in proportion to the number of consumers who demand graded products.

Before we can get a complete picture of government protection of consumers we must consider the protection offered by state governments as well as that provided by the federal government. Many products cannot be regulated by the federal government with any degree of effectiveness because they are produced and sold locally. Milk is one of the most important of these. Even state governments are usually not responsible for regulating the sale of fresh milk, that task is left in most cases to the cities themselves. But in this field the federal government also offers assistance. The United States Public Health Service, in cooperation with the Bureau of Dairy Industry, has drawn up a standard milk ordinance containing provisions to guarantee cleanliness and safety of fresh milk. This model ordinance was prepared by experts, and was recommended as a method by which city governments might offer adequate protection to consumers of milk. By 1938 this ordinance had been passed and was being enforced in over 700 cities in the United States.

#### STATE AND CITY GOVERNMENTS PROTECT CONSUMER INTERESTS

In considering the ways by which state and city governments protect consumer interests, we cannot go into much detail, partly because there are forty-eight different codes of state laws and thousands of cities with ordinances and regulations of their own, and partly because state governments regulate so many more activities which involve the interests of consumers than does the federal government. Our Constitution

provides that only certain powers and duties listed in the Constitution itself belong to the federal government, and that all other powers and duties are reserved to the states or to the people. Many things can be regulated by both federal and state governments. Others, especially those of local importance, are regulated primarily by states or by subdivisions of the states such as cities, villages, counties, and townships.

A mere list of some of the kinds of regulations and laws enforced by state and local governments in the interest of consumers is surprisingly inclusive. Banks, insurance companies and stockbrokers are regulated in the interest of the investing public. Laws limit the amount of interest which may be charged to those who borrow money. State boards of examiners are set up for members of various trades and professions, including lawyers, doctors, dentists, nurses, barbers, beauty parlor operators, and so on, to make sure that all individuals who are licensed to engage in those trades and professions have qualifications necessary to safeguard the public. Electricians, elevator operators, and sometimes even piano-movers, must be licensed. Building regulations, enforced by inspectors, provide certain standards of construction which must be maintained in all buildings. Laws provide rules and regulations for all forms of transportation. Street-cars and buses, as well as trucks, trailers, and even privately-owned automobiles and bicycles must have certain safety equipment. Streets must be kept clean and sanitary, weeds must be cut, and bathing beaches are regulated.

Many of these laws, such as those providing for regulation and inspection of banks and insurance companies, exist to protect the pocketbooks of the public, but more of them are for the purpose of protecting life and health. Hotels and restaurants must secure licenses, and are subject to inspection to see that all sanitary requirements are met. Employees who handle food are often required to take periodic health examinations.

All states have food and drug acts, many of them similar to the federal law, in order that food and drugs not subject to interstate commerce laws may be regulated. Several states have laws making the grading of certain kinds of food compulsory. The laws of some states give to consumers considerably more protection than is found in laws of the federal government.

Before the passage of the new federal Pure Food, Drug and Cosmetic Act, most states had laws which were patterned more or less after the old law of 1906. Attempts had been made to follow the federal law in order that state regulations would not cause confusion to both consumers and manufacturers. Since the new law has gone into effect, many states have accordingly passed new laws. In others, new laws will probably be introduced and passed by state legislatures. It is important that all alert consumers should know the nature of the laws which are enforced in the states and the localities in which they live, but an attempt to summarize the state and local laws and ordinances would take too much space to be included here, and would probably become out-of-date for many states within a short time.

We may ask, however, why it is necessary to have so many different kinds of state and local laws. What are the advantages and disadvantages of having a variety of state laws? We have already noted that many products are locally produced and consumed, and those products could not be effectively regulated except by some local agency. Different communities have different consumer needs. Furthermore, as we have seen earlier, the extent to which laws are passed to protect the consumer depends upon the extent to which the consumer himself is sufficiently informed to demand such protection. In some states with especially progressive laws the experience with those laws should prove valuable to other states. Some examples of such experiments are worth noting.

In 1935 the state of Maine passed a law to regulate cosmetics

sold in the state. All such cosmetics must be registered with the State Department of Health and Welfare, and must secure certificates of registration before they may be sold in Maine. The Department tests and analyzes all preparations which are offered for registration, and may prohibit the sale of any that it regards as dangerous. During the first two and one-half years that this law was in effect, 45 cosmetic preparations were refused registration. Nineteen of these would have been given certificates if the manufacturers had been willing to print on their labels certain words of warning and caution. The manufacturers of these 19 cosmetics refused to change their labels, preferring to leave the labels as they were, and to sell the products in the other 47 states. Other manufacturers of 107 cosmetic preparations agreed to prepare labels with words of caution to be used on those products which they sold in Maine. And the manufacturers of 42 preparations agreed to change the formulas used in their products to make them conform to the standards of health and safety set by the state of Maine. As far as these 42 products were concerned, consumers in other states as well as those in Maine benefited from the Maine law.<sup>12</sup>

One way in which the Maine cosmetic law differs from the federal law is worth noting. Both contain provisions to protect the public against harmful cosmetics. But the federal law can be enforced only after products have been put on the market, while the Maine law provides that products must be analyzed and proved harmless before they can even be offered for sale.

The law in Connecticut tries a different method. In that state, if any public health officer suspects that a food or drug product is adulterated, he may submit that product to the state food and drug enforcement agency for analysis. If tests show that the product has been adulterated, the officer who

<sup>12</sup> *Consumers' Guide*, Nov 7, 1938, p 9

submitted the sample is then made responsible for publishing the findings of the state chemist in a local paper by means of a paid advertisement—to be paid for by the person from whom the product was purchased. The guilty seller must also pay for the cost of the chemical analysis. If, on the other hand, the product is found to be legal, the local governmental body whose officer submitted the sample must pay for the cost of the tests made by the state agency.<sup>13</sup>

The state of North Dakota has a comprehensive law covering foods, drugs, and many other commodities sold in that state. A state agency tests and analyzes products sold, and publishes the results of its tests in a bulletin. Rather than have their goods publicly known as below standard, most manufacturers and distributors are careful to see that the products they offer for sale in North Dakota meet all legal standards set by state law and comply with claims made on their labels. In North Dakota all flour, for example, must be labeled as to the kind of wheat used in its manufacture, the percentage of protein in the product, and other important facts. Paints and varnishes must have labels showing what products they contain. Gasoline is tested and graded as either Class 1 or Class 2, and must meet specific state standards. Consumers in North Dakota can be more certain of the quality of many of their purchases than can their neighbors in near-by states.

In 1935 the state of Oregon passed a law requiring that all butter sold should be graded as A, B, or C quality. In an earlier chapter we considered the problem of grading products as to quality, and we saw that producers and manufacturers sometimes oppose compulsory grading because they believe it might result in lower sales. In this respect the experience in Oregon is interesting. During the first year in which the grading of butter was required, the average amount of butter eaten per person

<sup>13</sup> *Consumers' Guide*, Jan 2, 1939, p 9

in Oregon increased, and there was more Grade A butter produced than in previous years.<sup>14</sup>

Many states pass laws which require standards of quality for some food products sold. Since about half of the states have laws regarding the grading of eggs, that product may be taken as an illustration of the way grading as to quality may differ in various localities. In 1936 the United States Department of Agriculture made public an analysis of laws relating to the grading of eggs in the United States. It was reported that 200 egg laws had been passed by state and local governments during the previous 25 years. Of these laws about 10 per cent had been repealed, about 70 per cent had remained on the statute books but had not been enforced, and only 20 per cent were rigidly enforced. The value of these laws varies greatly. In some cases too little money is appropriated to enforce the laws. In many cases the laws themselves fail to provide a clear distinction which the consumer can easily recognize between one grade and another. It is interesting to examine the table on page 215 to notice the many different terms which can be used to describe eggs of first, second, third, and fourth quality. Imagine the disappointment of a consumer who might have moved from North Dakota to Vermont and then hoped to buy first quality eggs by asking for Grade "A."

In states where grading is compulsory for certain products, none of those products may be sold unless they have been graded. Where the grading is voluntary, the government will grade products that are submitted for grading, but similar products may be sold without any grade labels. Usually the dealers who want to offer their customers products of assured quality will want their products graded, if their customers are likely to ask about the grades. But if consumers are unaware that they can secure graded products, or if they are indifferent, there is little incentive for the dealer to insist on graded prod-

<sup>14</sup> Reid, *op cit*, pp 387-388



Table from *Consumers' Guide, Feb 24, 1936, p 14*

STATE	BEST GRADE	SECOND GRADE	THIRD GRADE	FOURTH GRADE
New York	Fancy	"A"	"B"	"C"
California	Specials	Extras	Standard	Trade
Florida	Florida fresh	Shipped	Cold storage	
Michigan	Fancy	"A"	"B"	"C"
Minnesota	Minnesota "A" No 1	Minn "A" Medium	Minn. "B" No 1	
Nevada	Large, special	Large, extra	Large, standard	
North Carolina	Fresh North Carolina	Cold storage	Processed, shipped	
North Dakota	"A"	"B"	Undergrade	
South Carolina	South Carolina Fresh	Cold storage	Shipped	
Wyoming	Wyoming fresh	Fresh-out-of-state	Cold storage	Preserved
Arizona	Arizona fresh			
Connecticut	Fancy and Special	Connecticut extra	Conn gathered	
Georgia	Extra	Standard	Trade	Yard run
Illinois	Grade "A" hennery	Grade "B," strictly fresh	Grade "C" fresh	Grade "D" edible
Iowa	Grade 1 special	Grade 2	Grade 3	U S lower grades
Kentucky	Grade "A" (extras)	Grade "B" (firsts)	Grade "C" (seconds)	
Maryland	Fresh	Large 24-oz doz	Medium 21-oz doz	Small 18-oz doz.
Rhode Island	Special	Fresh	Processed	
Vermont	Vermont fancy	Vermont medium	Vermont pullet	Vermont "A"
Wisconsin	Wisconsin Grade "A"	Wisconsin Grade "B"	Wis undergrade	

ucts in those areas where grading is not required by law. If 70 per cent of the laws which, up to 1936, had been passed relating to the quality of eggs which could be sold remained unenforced, the real fault lies with the consumer. If consumers demand the enforcement of such laws, and insist that enough money be appropriated to make that enforcement possible, the laws would not be forgotten.

Frequently state governments, like the federal government, make provisions for voluntary labeling of many products. An interesting example of this kind of activity, which has been going on since 1925, is represented by the *New England Quality Label*. The governors of each of the six New England states appoint a committee, called the *New England Council*, which sets up standards for the grading and packing of many varieties of food products. Any producer in the New England states who meets those standards in the goods he produces is entitled to use the quality label, to which is added the name of the state in which the goods are produced. Within each state the Commissioner of Agriculture establishes grades at the request of the growers of agricultural products, calling them into meetings to aid him in determining what the requirements for any particular grade should be in order to use the *New England Quality Label*. In order to make sure that only products of good quality should be entitled to use the label, the departments of agriculture within each of the six states maintain an inspection service of trained field men, who examine products which are labeled and graded to see that all the requirements are met. If any product fails to meet those requirements, the right to use the label is taken away.<sup>15</sup>

It is easy to see that there is a real advantage in having 48 different states and thousands of local communities try different methods of protecting the consumer. Regulations which

<sup>15</sup> O'Brien, R., & Ward, M. M., "Present Guides for Household Buying," *United States Dept Agr Misc Pub* No 193

meet with success can be adopted in other areas, and those which are not successful can be changed as a result of experience. Perhaps the greatest disadvantage arises from the uncertainty and confusion created by hundreds of different kinds of regulations. Legal differences are confusing to both the consumer and the producer. Producers frequently try to get together to agree on the kinds of regulations which they believe would be most satisfactory, and then try to get those regulations adopted by many state and local governments.

Consumers should also take an interest in the formulation of such regulations. Standards of the construction of buildings, for example, are intended as measures to insure good buildings, relatively safe from the chances of fire and other hazards. Such protection is necessary, not only for the protection of the individual who owns the building or lives in the house, but also for the protection of owners of near-by property. Yet it is possible to make regulations which necessitate a higher cost in building without providing any needed safety features. It is true that such regulations as those involved in building codes must be determined by experts, because the average consumer has too little technical knowledge to be a good judge of what is required. But an expert selected to represent consumers could help to insure that laws proposed and passed were really in their best interests, in this field as well as in many others.

#### THE INCREASING INTEREST OF GOVERNMENT IN CONSUMER WELFARE

Within the past few years government action in the interest of the consumer has noticeably increased. This is only another way of saying that the interest of consumers in their own welfare has awakened to such an extent that they are taking action through their government. As we have seen earlier, ever since our country has existed the people have required their government to safeguard some of their interests, such as the main-

tenance of peace and order, protection against fire, protection from fraud, and the provision of an opportunity for education. Some basic needs for the preservation of health, such as the maintenance of a pure water supply and the control of epidemics, have long been a part of the duties of government. But in recent years government protection has advanced a good deal beyond that which was provided or even needed in the early years of our history.

Various departments in our federal government have for a long time been concerned with the welfare of different groups of producers. The Department of Agriculture was charged with the duty of working in the interest of farmers, and the Department of Labor with that of wage earners. The Department of Commerce has devoted itself to the development of trade and industry. There is no Department of the Consumer, but there do exist at present newly-created agencies interested primarily in consumers. Some of these were mentioned earlier in this chapter. Another which should be mentioned is the Consumers' Counsel of the Bituminous Coal Commission. When the Bituminous Coal Act was passed in 1937 the bituminous coal industry was in very bad straits. The act was passed for the purpose of stabilizing the industry, promoting commerce in and the use of bituminous coal, and enabling the industry to operate profitably. The commission created by the act was charged with, among other things, the setting of minimum prices for coal. But although the primary aim of the act was concerned with the welfare of the coal industry, it was recognized that steps which might be taken in the interest of the industry might work hardship on the consumers of the coal. Congress for the first time passed a law which, although primarily designed to protect an industry, created an agency to represent the interests of consumers. Other agencies which help to protect consumers, such as the Public Health Service and the Food and Drug Administration, had been created by Con-

gress previously. Under the National Recovery Administration consumer agencies were created by order of the President. And, most recently, when the President established a national defense commission, one of the seven members was charged with the duty of safeguarding consumer interests. The appointment of a representative of consumers on the National Defense Commission, and the establishment of agencies such as the Consumers' Counsel of the Bituminous Coal Commission are important because they indicate that we now recognize that consumers' interests are of sufficient importance to receive special attention.

HOW MUCH SHOULD CONSUMERS DO FOR THEMSELVES  
THROUGH THEIR GOVERNMENT?

It is because we live in a democracy, under a government whose policies are determined by the people themselves, that we can ask this question in this way. If we were living in a totalitarian country, under a government whose policies were determined by a dictator or a ruling class, we would have to ask instead, "How much should the government do for consumers?" But if we lived under a dictatorship, we ordinary consumers throughout the country would not need to consider the question at all, because we would have no part in deciding how it should be answered.

It is, therefore, because we live in a democracy that it is important for all of us to consider how much we should do through our government to achieve our interests as consumers. All of us in the United States have the right to take our part in deciding on the answer. And because it is our right to help in making the decision, it is our responsibility to learn all that we can about the factors that must be considered if an intelligent decision is to be reached. It is our duty to understand the issues which we, as a free people, are privileged to decide.

We do not always agree on how much should be done

through agencies of government. Even when we do agree that a certain task should be a function of government, we do not always agree to just which one of our many governmental agencies that particular job should be entrusted. A good example of this occurred at the time of the passage of the food and drug legislation referred to earlier in this chapter, when some believed that false and misleading advertising of foods and drugs should be controlled by the Food and Drug Administration, while others believed it should be placed in the hands of the Federal Trade Commission.

An even more important problem arises when we consider whether a certain function should be performed by the local, state, or federal government. As each locality in the country becomes more and more dependent on all other parts of the country, this question becomes more pressing, and the people want more uniformity in some governmental regulations. An illustration of this is seen in the development of speed laws and other traffic rules. To prevent the confusion which faces a motorist driving his car through many towns, each of which has a different speed limit, many states have passed uniform traffic laws which apply in all parts of the state. And many people advocate the adoption of uniform traffic laws throughout all of the 48 states.

We have seen that the food and drug regulations of states and cities vary considerably. Seattle requires all meat to be government graded, but federal government officials do the grading. Oregon demands quality grades on all butter sold in the state. Federal law sets up a minimum standard for butter throughout the nation. Thus we have examples of three governmental bodies having regulations to protect the quality of food consumers buy. One of the great advantages in our kind of government is that it permits this kind of variation. It is possible for people in one locality to carry out regulations they want, even if people elsewhere might object. People in one

part of the country who are facing a particular question for decision are able to study methods used in other areas in order to determine which method they would like to try.

In general, the American people seem to prefer to keep many of their problems in the hands of the governmental body nearest home. It is usually only when the increased complexity of our modern life makes it difficult or impossible for the local governmental agency to handle a certain task efficiently that we put that task in the hands of a governmental body that covers a larger territory. Country roads, originally built and maintained by local townships, were found to be inadequate for increasing traffic. Machinery is needed to build the roads, to keep them in good condition, to clear them of snow in the winter. But some townships could not afford to buy all of the machinery needed. And so we have county roads and state highways. We even have highways built and maintained by money contributed jointly by state and federal governments.

We have noted that the question as to how many of our interests as consumers we should meet through our government is being answered in different ways in different localities. In some cities consumers are provided with electric current from a plant owned by the city, and operated under the city government. In others they get their electricity from a plant owned by a private corporation, but subject to certain governmental regulations. In some states all persons handling food in public restaurants must have health certificates to show that they have no communicable diseases. In other states the proprietors of such restaurants are trusted to protect their customers against such exposure to contagion. In most cities all milk sold must be pasteurized, but in many villages pasteurization is not required. It is generally true that we do not ask our government to pass laws for our protection, or to provide services such as a public water supply, subway transpor-

tation in cities, or electric power, unless we believe that such government action is necessary.

We have already seen that as industrial civilization becomes more complex, as we become more dependent on products made by others and transported long distances, our needs and problems as consumers become more complicated. When woolen yarn was spun in the home and woven on a hand loom there was no need for a law requiring labels which indicate the percentage of wool used. When apples were picked from a tree in the back yard, or bought from a neighboring farmer, there was little need for laws regulating the amount of lead or arsenic spray which might be left on the apples. When our grandfathers drove along roads in horse-drawn vehicles, there was little need for wide concrete highways, or for laws requiring all vehicles on public roads at night to be equipped with red lights at the rear. \*

Each important invention, each advance in transportation, and the constantly increasing development of mass production have brought about tremendous changes in our economic life. And all of these changes create new needs and new problems. In many cases we look to government action to help solve these problems. As our problems as consumers become more pressing, and as we become aware of needs that we cannot meet, we frequently consider whether we can meet them best through government action. This question of expanding the duties of government is one of the most important problems we have to solve today.

Such decisions must be made after considering many factors and numerous different points of view. There is nearly complete agreement that government should provide certain services essential to the health and safety of the people, but we do not all agree on what those essential services are. Probably no one would argue against government ownership and distribution of a supply of pure water in a city, but many would oppose



the control, by a city government, of the supply and distribution of milk. No one opposes the maintenance of city streets by the government, but many oppose the operation by the city of transportation systems on those streets. Few argue against government transportation of letters and packages through the mails by means of the United States Postal System, but many would argue against the government transportation of freight and passengers on the railroads.

Sometimes it is difficult to draw the line between services and regulations which should be performed by the government and those which should be left to private industry. Many Americans believe that government should perform only those functions which cannot possibly be done in any other way. They are afraid that an increase in government authority may result in an undue limitation of freedom and unnecessary or undesirable handicaps to private industry. Other Americans believe that government control and regulation is desirable, that government is more likely to act in the interest of all the people, and that there is no reason to fear increase in government authority in a democratic country where the people control the government.

There is no simple answer to the problem of how much the government should do. People generally support government regulations which they believe to be of advantage to themselves. Labor and farm organizations support government regulations which are in their interests. Business organizations support those government regulations, such as tariffs and laws affecting chain stores, which work to their advantage. It is an essential part of our form of government that such groups should have the right to present their needs and work for government action to meet those needs. But frequently government action in the interest of one or more groups is taken at the expense of the interests of the much larger group of

consumers who, because they are not aware of the importance of the action, fail to work together to make their interests known to the government. As soon as consumers realize the importance of their needs, they work for government action which they believe to be in their best interests.

The question as to how much consumers should do for themselves through their government may be answered in different ways. The way in which it is answered will depend on a number of factors. It will depend on the effectiveness with which private industry meets the needs of consumers in supplying them with the goods and services they want, of good quality and honest value, at prices which they can afford to pay. It will depend upon the efficiency with which governmental agencies can supply services which have been delegated to them, and to what extent laws enacted to benefit consumers are successful in achieving that purpose. It will depend on the extent to which consumers can supply their own needs through cooperative organizations. And, most important, it will depend on the decisions made by consumers themselves, and the soundness of those decisions will depend on the extent to which consumers understand their problems and the alternate methods which may be used in their solution:

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#### SUGGESTED ACTIVITIES

1. Find out what services are performed and what regulations are enforced by your local and state governments in the interests of consumers. How do these compare with consumer services of other local and state governments? Class committees may each investigate some particular kind of activity, such as health services, quarantine regulations, pure food and drug regulations, sanitation, fire and police protection, building standards, street maintenance, parks, inspection of weights and

measures, library services, and so on. Make a large chart or bulletin board display of these governmental services.

2. Investigate your own community to find out: (a) whether only government inspected meats are sold, (b) whether there is a local milk ordinance, (c) where government graded meats are sold, (d) what license and inspection is necessary for operation of a restaurant, (e) what regulations must be followed by barber shops.

3. Using similar methods, and referring to such aids as the U. S. Government Manual, Digest of the Purposes of Federal Agencies, and Consumer Services of Government Agencies (see references, pages 316 to 328), indicate the most important consumer services of the federal government. Write to those federal agencies mentioned in this chapter for information and material to exhibit.

4. Invite a government official to tell you about some phase of government protection of consumer interests. If possible, visit some government activity, such as the grading or inspection of meat or other agricultural products, or a rural electrification project.

5. Compare government services to consumers in the United States with those carried on by the government of some other country.

6. Write and perform a playlet or dialogue showing the number of government services which you encounter in everyday life.

7. Arrange a display of pictures, or draw a cartoon, illustrating some of the problems or services discussed in this chapter.

8. Find out what legislation that will affect your interests as a consumer is now under consideration in your local village or city government, in your state legislature, in Congress. Read newspapers and magazines to find out whether such legislation will be to your advantage, what groups are supporting and opposing it, and what you can do to protect your own interests.

9. Read a current article in favor of an expansion of government services to consumers, and another favoring the restriction of such government activities. List the main arguments on both sides. Find out all you can about the authors of the articles. Express your own opinion about the arguments given, and give the reasons for your opinion.

[illegible][illegible]

Cooperatives arise for the same reason that all other social or economic organizations develop, as an attempt to meet a need or solve a problem that has become so pressing that something must be done about it. The needs which have given rise to the development of cooperatives are those which we have discussed in previous chapters—the very urgent needs of the great majority of the people for more and better consumer goods and services than they are now able to secure. Here in the United States we have a higher standard of living than

227

that enjoyed by any other group of people of comparable size in the world, yet we know that there are only a very few Americans who can afford all the goods and services they need and want. Here in the United States we also have the people and the resources to produce enough goods and services to supply a far greater proportion of our needs than we now provide; and consequently we have every reason to believe that we can solve the problem of providing ourselves with the higher standard of living that we all desire. Moreover, here in the United States we are free to try several methods of reaching that higher standard. Many consumers depend on the customary forms of private business enterprise to lead the way. Others believe that they should supply and protect their interests as consumers through their government. Still others are organizing their own cooperatives through which to work toward the same end. One of these three methods need not exclude the others, and there are many people who believe that each of these methods has something important to contribute to our economic progress, and that they can work successfully side by side.

#### THE STORY OF ROCHDALE

In England in the decade between 1840 and 1850, times were so hard that the period has been described as the "hungry forties." The industrial areas were suffering a bitter depression. The city of Rochdale, in the heart of the Lancashire cotton mill area, was hard hit. Wages were low for the men, women, and children who worked for as long as fourteen hours a day at the task of weaving flannel. According to a Parliamentary report, there were in Rochdale in 1841 fifteen hundred people living on 45 cents a week. •

A group of weavers in the Rochdale mills decided to ask for an increase in wages. They even tried to strike for higher wages. But they gained nothing in this manner. Most of the

weavers gave up hope for a better lot, but a few of them decided that they would try to organize a store to sell themselves the supplies they needed. If they could not get higher incomes they might lower the cost of necessities, and thus make their incomes go farther.

There were 28 people in Rochdale who got together in the winter of 1843 to work out some method of improving their conditions. Several of them were flannel-weavers, but there were also among them an engineer, a printer, a tailor, a shoemaker, and other workers. Most of them had studied, watched, or taken part in some of the other methods that English workers had been attempting in an effort to remedy the harsh results of the shift to the machine age and the factory system. Some were Chartists, working for the "People's Charter" which would give all men the right to vote for members of Parliament. Some were followers of Robert Owen, the humanitarian factory owner who saw the growing evils that were accompanying the factory system; and who was trying, without much success, to remedy those evils by establishing factories owned by the workers. Some of them had watched the development of little cooperative stores, called Union Shops, which had been encouraged by Dr. William King, a London physician. They studied reasons for failures of earlier attempts at reform, and were determined to work out a method of operation which would prevent the possibility of a repetition of any of these mistakes.

The Rochdale workers called their organization the "Equitable Society of Rochdale Pioneers." Their ultimate aims were almost pathetically ambitious, and included improvement of the social and economic life of the whole nation. But their far-reaching dream of a better world did not detract from their immediate purpose of establishing a store of their own through which they might obtain the bare necessities of everyday life. It takes capital to start a store, but they had no money. Their

earnings were pitifully small, but they each agreed to save a few cents a week until they might accumulate enough to start operations. A collector was appointed to make weekly rounds and to take care of the money. After nearly a year of saving and collecting, about \$140.00 had been raised, and it was decided to go ahead. Much of their small capital was needed to rent the basement of an old warehouse on Toad Lane. They invested \$70.00 in the supplies which were most needed, small stocks of sugar, oatmeal, flour, butter, and candles. With this beginning they opened for business one night just before Christmas, in 1844. They could not afford to hire employees for the first few months, so they began by having the store open for business only on certain evenings each week, and members volunteered their services. But the principles on which the store was operated were so sound that by the end of the first year the membership had grown to 80, the capital had increased to \$900.00, and a saving of \$160 00 had been made on the total year's business of \$3,500. What is more important is the fact that the success was permanent. When the Rochdale Pioneers celebrated their golden jubilee in 1894, after fifty years of operation, this business enterprise, which had been started with a capital of \$140.00 saved by 28 people over a period of a year, had a membership of 12,000 families, and was doing a volume of business of 1½ million dollars a year. It is because the methods followed by the Rochdale Pioneers have been so successful, and so essential to the success of consumer cooperatives, that the principles which were formulated at Rochdale nearly a hundred years ago are now followed by cooperative organizations in both England and the United States, and in all other parts of the world where consumers are free to own and operate their own organizations.

#### THE ROCHDALE PRINCIPLES OF CONSUMER COOPERATION

One principle to which the Rochdale Pioneers were devoted was that of democracy. During the first half of the nineteenth



century there was much agitation in Great Britain for reform in the election laws, to enable all Englishmen to vote, but in 1844 there were large classes in England who had no voice in the election of members of Parliament. The founders of the Rochdale Society believed that democracy should be extended, not only in government, but also in the control of business. Therefore one of the basic rules of their organization was that membership should be open to all who wished to join, and that each member should have one vote. With respect to the principle of democracy, the Rochdale Pioneers were many years ahead of the democratic governments in the world, since they opened their membership and gave equal voting privileges to women, at a time when women's suffrage was seldom heard of as an issue in politics.

Closely allied with the maintenance of the principle of democracy in a cooperative organization is the method of raising money with which to do business. Money is raised by the sale of shares, one or more to each member. But if membership is really to be open to all, in fact as well as in theory, those who are unable to pay a large sum of money for a share must not be excluded. Therefore shares must be priced low enough to be within the reach of all who want them. The shares of the Rochdale Society were \$5.00 each. It was even possible for a member to buy a share by making a small down payment, and paying for the remainder by small deposits in many installments, or by applying the dividends he would receive from the Society as payments on his share. Those members who could afford to buy more than one share often did so, but no matter how many shares one member might own, he could have only one vote.

Members were paid interest on their shares. This interest was fixed at a fair rate, and no matter how successful the store was, no matter how much "profit" was made, the rate of interest remained the same. This was a new principle, and one that is very important in the success of cooperatives. In an

ordinary corporation, profits are divided among the shareholders and are paid to them as dividends. If business is poor, there may be no dividends on shares of stock, or the dividends may be small. If business is good, the dividends may be extremely high. But the Rochdale Pioneers decided against this method of distributing the earnings of their store. They believed that capital was entitled to a fair rate of interest, and no more. Their store was organized by consumers to be operated in the interests of the consumers. The surplus income that was left after the fixed rate of interest had been paid on shares, and after expenses of operation had been paid, had been made possible by the consumers who bought their supplies from the store. Since they were the ones who had made this "profit" possible, the Rochdale Society decided that the only fair thing would be to return it to the consumers. Moreover, each consumer should have his proper share of this surplus. If the Smith family had bought twice as much from the store as had the Jones family, then the Smiths had done twice as much as the Jones' had done to make this surplus possible. Therefore the Smiths should receive twice as much when the surplus is returned to the members. The payment thus made by cooperatives to each of their members is usually called a "patronage dividend" or a "patronage refund." This principle of returning the surplus to consumer-members in the form of patronage dividends, in proportion to the amount of business done with the cooperative, is one of the most important contributions made by the Rochdale Society to the development of consumer cooperation. As a result of this principle, all members are interested in patronizing the cooperative as much as possible, for they know that the more they buy, the more they will get in return. They know that whatever profits are made possible by their own purchases will be returned to them, rather than to someone who may have invested a great deal of money in the store. At the same time those who invest money by

purchasing shares know that they will get a fair rate of interest on their money, but they cannot speculate on the possibility of getting returns any greater than the fixed interest rate.

There are other principles and methods which were practiced by the Rochdale Society that have been followed by most consumer cooperative organizations. Through their store Rochdale cooperators sold themselves products of good quality and honest value. The standards of quality and honesty set up in Rochdale in 1844 were much less common then than they are now. Yet even today in the United States, as we shall see later, a major reason given by many people for buying at cooperative stores is the quality of the goods which they offer. Since consumers own and operate the stores, there is no reason for them to fool themselves into buying goods of low quality or poor value.

The Rochdale Pioneers believed in selling for cash only, thus keeping their members out of debt, and avoiding the extra expense caused by overdue accounts. They believed in selling their goods at market prices, rather than trying to sell them at prices lower than those charged by their competitors. They had seen that some of the earlier cooperative stores had failed because they had started to sell at lower prices, and had found that their older and stronger competitors could under-sell them and win out in a price war. Therefore they avoided this difficulty by charging market prices, knowing that their members would receive the difference in the end in the form of patronage dividends.

The Rochdale Pioneers realized that if consumers were to help themselves, if they were to take part in controlling a business enterprise, and if they were to convince others of the advantages of cooperation, they would have to do it wisely and intelligently. Therefore they decided that before the net profits were divided up to be returned to the members, a certain amount should be set aside for the purpose of education. They

also held back a certain amount for a reserve with which to meet hard times and emergencies, and with which to expand their business when conditions made such expansion desirable. They believed that each local cooperative should unite with other cooperatives into larger federations, in order that together they might have the strength and resources to do more for themselves than each could do acting separately.

Another interesting and important principle emphasized by the Rochdale Society was neutrality in politics and religion. The men who organized this early cooperative had studied other attempts to develop better economic conditions. Many of these had failed because of their connection with politics, for if the political movement were defeated, the cooperatives connected with that movement would usually collapse with it. Others were limited in their progress because they sought members only among believers in a certain religious faith. The Rochdale Pioneers recognized that we are all consumers, regardless of our religious faiths and our political opinions. Our interests in securing for ourselves a higher standard of living, at a cost we can afford to pay, are the same as those of all other consumers. Therefore they maintained that as consumers we should work together through cooperative organizations without regard to any differences in politics or in religion.

#### WHAT IS CONSUMERS' COOPERATION?

Consumers' cooperation is a form of business enterprise organized for the purpose of supplying the needs of consumers and operated according to certain fairly well accepted rules based on the Rochdale Principles. A consumers' cooperative belongs to the consumers who use its services. It is controlled democratically by its members, each of whom has only one vote. It distributes its surplus income to each of those members in proportion to the extent to which that member has

made use of its services. It is usually incorporated under the cooperative law of the state in which it is located.

To get a clear understanding of just what a cooperative is and how it operates, it is important to know the difference between cooperatives and the more usual form of business corporations. The modern corporation has had a long history. It developed from the joint stock companies which grew up at the time of the revolution in commerce which took place during the fifteenth century. Corporations were developed to meet the need for some form of business organization which would enable many people to invest money in an enterprise which is too big to be financed and carried out by one person.

Most of our modern business enterprises today are carried on by corporations. Corporations sell shares of stock just as cooperatives do, in order that many individuals may contribute the capital necessary to carry on the business. The person who owns a share in an ordinary corporation is usually called a stockholder, and he is really a part owner of the corporation, just as the member who owns a share in a cooperative is a part owner of the cooperative. But there are some very important differences between owning a share of stock in an ordinary corporation and owning one in a cooperative.

Let us first consider the matter of democratic control, so important in a cooperative. We remember that membership in a cooperative is open to all who care to join and to buy a share. Many corporations are likewise open, and will sell shares to anyone, although many others have a limited number of shares and do not have open membership. But the real essential of democratic control is the principle of one vote for each member. That principle is not carried out in an ordinary corporation; instead, there is one vote for each share of stock. A man owning 100 shares has 100 votes, a man owning 1,000 shares has 1,000 votes, while a man owning one share has one vote. If the corporation should have 100 shares in all, and if 51 shares

were owned by one man and 49 other men owned one share each, the man who owned the 51 shares could control the corporation entirely against the wishes of the other 49. This method of voting according to the number of shares owned is based on the idea that the man with the most money invested should have the most to say about the business. It is easy to see how this idea of voting according to shares was developed, but it is not the democratic way of voting. Brown may own a hundred houses in a city, and Smith may own only one, yet Brown and Smith each have only one vote in the election of a mayor of that city. In our political democracy voting is not based on wealth or on property, but on the right of each individual to have a vote equal to that of each other individual.

With the method of voting followed by ordinary corporations, it is possible for one man or a very small group of men to control a corporation having thousands of stockholders, if the man or the small group have 51 per cent of the stock. But in many large corporations a much smaller percentage is sufficient to give control of the organization to a little group or a single person, because of the system of proxy voting. Many of the largest corporations have their stockholders scattered all over the United States. It is impossible for any large proportion of them to attend the annual meeting, at which policies are decided upon and a Board of Directors elected. And so a stockholder who owns 10 per cent of the shares may secure proxies for 41 per cent more, and thus may cast the votes for 51 per cent of the total. To prevent this possibility, cooperatives prohibit voting by proxy.

Aside from democratic control, the other way in which cooperatives differ from ordinary corporations is in the method of distributing surplus earnings or profits, as we have already noted. Shareholders in a cooperative get a fixed rate of interest on the money which they have invested in shares. That rate may be determined by the members of the cooperative, but most

states have laws which limit the amount of interest which may be paid to 6 or 8 per cent. But since ordinary corporations do not as a rule pay any returns to those who use their services, all of the net profit, except that set aside for surplus or reserves, may be divided up and distributed as dividends to the stockholders. In many cases these dividends are much greater than 6, 8, or even 10 per cent of the investment.

Those who believe in the cooperative method of distributing earnings believe that their method is more just than that used by other corporations, because invested capital is paid a fair rate and any surplus is paid to those who made that surplus possible. But others argue that the method of paying all of the profit to the investors has its advantages too, and they point out that the possibility of getting very high dividends is often necessary to persuade people to invest money in an enterprise which is not certain to succeed. Suppose, they say, you want people to invest money in a corporation which intends to drill for oil. You cannot promise that oil will be found, but you can promise that if a good oil well is drilled, the profits on the investment will be great. People would probably not be willing to invest money in such an uncertain venture, taking a chance on losing it all, for a return of 5 per cent; whereas they might willingly take that same chance in the hope that if the venture did succeed they could double their investment.

The real difference between cooperative enterprise and other business enterprise lies in the purposes for which each is operating. The purpose of all business is to benefit the owners. In an ordinary business corporation the owners are the stockholders who have invested money. They are interested in the business because they are investors in it. To benefit its owners, that business must pay a good return on the investment. In a cooperative the owners are likewise stockholders who have invested money, but they are also consumers who use the services provided by the cooperative. Their interest in the business is not

primarily that of investors, because they have ordinarily invested only small sums, and those sums bring in a fixed rate of interest. Their interest is primarily that of consumers. Therefore, in order for a cooperative to benefit its owners, it must benefit all of the consumers who use the goods or services it provides.

#### EARLY DEVELOPMENT OF COOPERATIVES IN THE UNITED STATES

We are chiefly interested in the development of cooperatives in our own country. We have considered the story of the development of the cooperative society in Rochdale, England, because that story shows so well the development of principles that are followed by consumers' cooperatives in America. American experience has shown that those principles are sound, and that cooperative organizations which follow those principles are most likely to succeed.

By a strange coincidence, a cooperative store was organized in Boston, by a group of tailors, in the same year (1844) that the Rochdale Society opened for business. The Boston organization grew rapidly, and within seven years had organized, throughout New England and near-by states, over 400 divisions which were bound together in the Workingmen's Protective Union. They reached the peak of their development in the 1850's, when there was disagreement within the movement which resulted in the division into two separate groups. By the time of the Civil War both groups had disappeared. The cooperatives of the Workingmen's Protective Union failed to become a permanent growth partly because of disagreement in their own ranks, partly because of the economic and social conditions of the time in which they developed, and partly because of their own methods of operation. They did not follow the principle of paying patronage refunds to consumers. Instead they sold goods lower than the market price, at prices as near



cost as it was possible to figure. The only dividends received by members were those based on investments in shares. In only one important respect had they followed the Rochdale Principles, in that each member had only one vote in the control of the organization.

Just after the Civil War, farmers in the United States formed an organization for the purpose of improving their social and educational opportunities. This organization was the Patrons of Husbandry, more often called the Grange. Before long the members of the Grange expanded their interests to include steps to improve the economic conditions of the farmers. Among the steps taken was the organization of cooperative stores to handle products needed on the farm and in the home. In 1875, at a national meeting of the Grange in Louisville, Kentucky, a committee which had spent several months studying methods to recommend to the Grange cooperatives, advocated the practice of those same principles of cooperation which had been developed by the consumers' cooperatives in England. Hundreds of cooperative stores were organized by local Granges. Some followed all of the recognized cooperative principles. Others were organized in states where laws did not permit the principle of one vote per member, or the principle of returning surplus income to members in proportion to their patronage. Many of them failed after some years of success. On the other hand, in the state of Texas the Grange cooperative stores made such remarkable progress that competing business organizations got together and secured the passage of laws which prevented the formation of any more cooperative stores in that state until recent years. In many cases, in areas where the Grange movement became less important, the Grange stores disappeared, or were transformed into ordinary retail stores. But the Grange is still an important farm organization in some parts of the United States, and scattered throughout the country there are still in

existence cooperative stores started by the Grange more than sixty years ago.

The Workingmen's Protective Union and the Grange cooperatives illustrate two attempts to develop cooperative enterprise in the United States during the nineteenth century. There were many others. Some were genuine, while others were attempts of promoters to take advantage of people by persuading them to invest in organizations which were cooperative in name only, and were really designed to benefit the promoters. Although such organizations were never real cooperatives, the fact that they used the term served to prejudice many people against genuine cooperative associations. Other organizations which were actually cooperative, but which failed because of bad management or strong competition, left a record unfavorable to the development of future cooperatives on a sounder basis. As a whole, except for the Grange cooperatives which are still doing business, the development of cooperative stores on a permanent basis in the United States did not make notable progress until recently. It is only within the past fifteen or twenty years that consumers generally have felt a great enough need for such organizations to cause a considerable increase in their numbers.

Retail stores, however, constitute only one form of consumers' cooperative enterprise. Another form of cooperation, in a field in which the need was greater, and in which conditions were more favorable, has been going on in the United States for about 120 years. This form of cooperation was developed by farmers throughout the country, and arose out of their needs for some kind of protection against the destruction of their buildings and other property by fire. In 1820 the danger of fire, and of losses which resulted, was very serious to most farmers. They had practically no way of fighting fires once they got started. Ordinary commercial fire insurance had not developed widely, and farm property was considered to be

such a poor risk that rates charged for rural insurance by the fire insurance companies were too high for most farmers to pay. Under these conditions farmers faced a real need for some kind of protection against risking a total loss of their property by fire. And so they organized little fire insurance companies of their own, through which they sold fire insurance policies to themselves. Sometimes these fire insurance companies covered the area of a township, sometimes they included a whole county. They were not called cooperatives, partly because that term had not become well known, and partly because laws did not permit insurance companies to incorporate and do business under the name "cooperative." They were generally called farmers' mutual insurance companies, or township mutual insurance companies, because there were laws permitting the organization of "mutual" insurance companies, and because mutual companies can follow the democratic principles which we have seen are necessary to the operation of cooperatives. And most of the farmers' mutual insurance companies have followed the principles of cooperative management and democratic control to this day.

A little later in this chapter, under the discussion of cooperative insurance, we shall see how these insurance companies perform an important service for their members, at a cost far less than that service is provided in any other way. We have mentioned their organization here as an illustration of one form of cooperative organization which originated in the United States in the early period of our national life, and which has continued to have a successful history up to the present time.

The development of consumers' cooperation throughout the country is being greatly assisted by a national organization of cooperatives called the Cooperative League of the U.S.A. We shall see in the next few pages how cooperative organizations unite with each other to form cooperative wholesales to

carry out their business activities more effectively. In the Cooperative League they have federated into another organization, not for the purpose of engaging in commercial activities, but in order to educate both members and the general public in the methods and accomplishments of consumers' cooperation. When the Cooperative League was founded in 1915, there were comparatively few cooperatives in the United States. The organization of the League and its operation during its early years, were largely due to the efforts and the financial assistance of Dr. J. P. Warbasse, who has been its president during its entire history. As soon as its membership became large enough, the League became self-supporting.

The Cooperative League now has a membership of about twenty regional cooperative wholesales and five district leagues. It has offices in New York and Chicago, and maintains in Washington a legislative representative who is concerned with activities of government which may affect cooperatives. It sponsors an auditing bureau, a medical bureau, a design service, and a school for the purpose of training cooperative leaders. It publishes a monthly magazine, numerous pamphlets, and some books. Its aim is to promote sound development of consumers' cooperatives by means of publicity, expert assistance, and education. Its existence and its work indicate the importance which cooperative organizations attach to the education of their leaders, their members, and the public.

Even with their rapid growth in recent years, only a small proportion of the business in the United States is done through cooperatives. Cooperative retail organizations today handle between one and two per cent of the total retail business. The question might be raised as to why a form of business organization, which is so small in comparison to other forms, is important enough to receive special attention.

There are several facts to be noted in answering that question. In the first place, although the total volume of business

carried on cooperatively may be small, it has increased faster during the past few years than have other forms of business. In the second place, some kinds of cooperative enterprise in some areas of the country now do a much larger proportion of business than is indicated by the one or two per cent mentioned. Nearly half of the farmers in this country carry fire insurance in their own mutual insurance companies. And in two middle western states, Minnesota and North Dakota, the volume of petroleum products handled by cooperative organizations is second only to that of the Standard Oil Company. And finally, cooperatives are receiving special attention because of the increasing interest of consumers in solving their own problems, and the recognition that consumers' cooperatives may offer a democratic method of helping in their solution.

#### AMERICAN FARMERS BUILD CONSUMERS' COOPERATIVES

On one hot July day in 1936, beside a lake in a small town in western Minnesota, there was a big celebration. Leaders of cooperative organizations from all over the United States were there. News reel movies were taken. Representatives of the largest news magazine in the country attended to report what was going on. The occasion for this gathering was a celebration of the fifteenth anniversary of the establishment of the first cooperative oil association in the United States. During the fifteen years which had elapsed since the farmers around Cottonwood, Minnesota, had organized their cooperative, hundreds of groups of farmers had followed their example. They had not only organized little local cooperative associations, but they had federated these small organizations into large wholesale cooperatives which were owned by the local groups. They had in those fifteen years grown until their business amounted to millions of dollars a year. And during those years the members of these cooperatives had saved themselves hun-

dreds of thousands of dollars in the cost of their purchases of gasoline and other petroleum products.

In the early 1920's, although most of the country was enjoying a period of prosperity, farmers in the Middle West were having a hard time. During the World War of 1914-18 they had expanded as much as they could. The demand for food had been much greater than usual, prices had gone up, and farmers had put all of their land into cultivation. Because labor had been scarce at a time when increased farm labor was needed, farmers had invested in labor-saving machinery, so that the power from gasoline engines could replace that of horse-drawn machines and that of manual labor. Most farmers had found it necessary to borrow money in order to meet the demands for an increased production of food for the needs of a nation and a world at war. When the war ended, the demand for food was greatly decreased, and prices which farmers received for their products went down rapidly. It became very difficult for farmers to sell enough at these lower prices to make payments on the money they had borrowed when prices were high. It was necessary for them to economize in every possible way in order to stretch their small incomes far enough to buy the goods they needed in the home and on the farm.

The cost of gasoline was an important part of the farmer's expenses. He needed gasoline not only to run his car for the personal use of himself and his family, but he also needed larger quantities to transport farm products to town, to run his tractor and his milking machine, and often to pump water from his well. To the farmer the price of gasoline was an important item, and it had not been reduced in the way that the prices on corn and wheat and milk had been lowered. But farmers had no more to say about the price of gasoline than they had to say about the prices which they received for wheat.

The farmers of Cottonwood decided to do something about it. They had already had some experience with the organization of cooperatives. For many years they had belonged to cooperative marketing associations. Through their marketing cooperatives they had stored their grain in cooperative elevators, and had shipped their livestock to the markets. They had even begun to buy products they needed, such as feed, seed, and fertilizer, through these cooperatives, and they knew that they had often been able to save money in the purchase of these products cooperatively. It was natural that they should investigate the possibility of organizing a cooperative through which to buy their gasoline.

In 1921 they formed a cooperative oil association and incorporated under the state law. Each farmer member bought a ten-dollar share, and each had one vote. They elected a board of directors from among their members. They brought their gasoline in tank-car quantities, and hired a manager and a truck driver to deliver the gasoline to their farms. They charged the market price for the gasoline, and at the end of the year they returned the surplus income to themselves in proportion to the amount of gasoline that each farmer had bought. They found that they had been able to make a considerable saving in the cost of their purchases.

During the next few years dozens of these cooperative oil associations were organized in the surrounding area. They built service stations and bulk tanks in which to store gasoline. Some of them had to face the opposition of branches of large and powerful oil companies located in the towns in which the new cooperatives were organized. These large oil companies have had a history of being able to "squeeze out" small independent competitors, and they tried their favorite weapon of price wars on the new and struggling cooperatives. But results were not what they expected. In one case a major oil company cut prices until it was selling gasoline at a price lower

than cost. It was losing money on each gallon sold, but the company was making enough on gasoline sold elsewhere to be able to afford to lose on its sales in one town. The new cooperative, it believed, would not be able to continue to sell gasoline for very long at a price below cost.

The cooperative called a meeting of all its members. The manager and the members of the board of directors reminded the farmers of the reason for which they had bought their shares and had organized the cooperative. They had done it in order that they might save money on the purchase of gasoline. The existence of the cooperative had already resulted in a major oil company offering gasoline to the farmers below cost. That was a greater saving than they had planned on. The decision was easy. The cooperative would not go out of business. Neither would it sell gasoline below cost in order to attempt to compete with a company backed by resources of millions of dollars. It would merely close its gasoline station temporarily and ask its members to buy all of the gasoline they needed from the competitor who was selling below cost. If they could accomplish their purpose of lower prices on gasoline without even running their station, it was all right with the members of the cooperative. But they well knew that if they went out of business the price would return to its former level. This was a new form of competition. The members of the cooperative bought their low-priced gasoline from the competing station, until the manager of that station decided that he was losing money daily and was getting nowhere. When he gave in and raised his prices to their former level, the members of the cooperative reopened their station and made their purchases from their own organization.

Price wars, however, are not the only means by which an old and well-established business can attempt to stop the growth of a new one. In the petroleum industry especially, some of the larger companies have secured considerable control of the



source of supply. If the small gasoline cooperatives were to continue their success in supplying their members with petroleum products at a considerable saving, they must be sure of some way of obtaining their supplies of gasoline and oil. By the time that numbers of local cooperative oil associations had operated successfully, their members began to consider the advantages of owning their own wholesale cooperatives. Since individuals could save money by owning their own retail organizations cooperatively, it seemed reasonable to assume that if the local retail cooperatives would cooperate with each other in establishing a wholesale the savings would be even greater. And so in 1926 local cooperatives got together and established in Minneapolis the first cooperative wholesale society dealing primarily in petroleum products, the Midland Cooperative Wholesale. There are now more than a dozen such regional wholesales in the United States.<sup>2</sup> Through them, local cooperatives become stronger and more efficient, and carry on educational programs for their members.

A cooperative wholesale is an organization owned by local cooperatives, and controlled by them in a democratic manner. Delegates from the local cooperatives meet annually to elect the wholesale's board of directors, and to vote on the policies to be carried out by the wholesale. Patronage dividends are paid by the wholesale to its member cooperatives whenever there is any surplus income above that needed for expansion. Frequently, however, the member cooperatives decide that their wholesale, instead of paying patronage dividends back to the local organizations, should use its surplus to extend its services to the members.

Cooperatives dealing in petroleum products have been remarkably successful. About 1,150 of them were organized between 1921 and 1936.<sup>3</sup> Some of them have returned to their

<sup>2</sup> Parker, *op. cit.*, pp 146-148

<sup>3</sup> Parker, *op. cit.*, p 6

members patronage dividends as high as 18 cents for each \$1.00 of purchases, and the majority have returned dividends of from 6 to 10 per cent.

The history of the Consumers Cooperative Association of North Kansas City, Missouri, is a good illustration of what cooperative wholesales can do. In 1929 this small cooperative wholesale met with difficulties in purchasing oil to sell to its member cooperatives. It solved its difficulties by establishing an oil-blending plant of its own. It employed a chemist to test its products, so that its members could be sure of receiving good quality. In addition to assurance of quality, its members could now save the amount that had formerly gone as profit to an oil-blending plant which they did not own. Six years later the Consumers Cooperative Association had become so successful that it bought, at a bankruptcy sale, the blending plant of the company which in 1929 had refused to sell its products to the cooperative. In 1936 the wholesale began handling groceries, and started manufacturing paint. Its business continued to grow, and in 1939 the Consumers Cooperative Association built the first cooperative petroleum refinery in the United States, and a cooperatively-owned pipe line from the oil producing area to the refinery. Not long after the refinery began operations it appeared that there would be trouble in getting a sufficient supply of crude oil. As a result the members voted overwhelmingly in favor of the purchase of oil wells, and the production of crude oil for themselves. In the fall of 1940 oil was struck in the first cooperative oil well. Now the individual who is a member of a local cooperative is not only part-owner of his own local retail business, but he is also part-owner of a cooperative wholesale, a cooperative refinery, a cooperative pipe line, and a cooperative oil well. And he knows that he can receive his share of all the "profits" that may be made from the time the oil leaves the ground to the time the gasoline is put in the tank of his car. As a consumer he not

only can share in the earnings of the business, but in the democratic control of the organizations which he owns.

#### THE DEVELOPMENT OF COOPERATIVE STORES

Cooperative grocery stores, like cooperative oil associations, had their first considerable development in the Middle West. The earliest of the stores were organized before oil associations were heard of, but they too have had their greatest development in the period since 1920. The growth of cooperative stores in the United States owes a great deal to the efforts of Americans of Finnish birth or ancestry, who knew of the success which consumers in Finland were having with their own cooperative organizations, and who established similar organizations in this country.

The Cloquet Cooperative Society, which is now the largest cooperative retail store in North America, was organized in 1910 by people of Finnish origin. Cloquet, Minnesota, is a town with a population of about 7,000. Its principal industries are lumbering, paper milling, and the manufacture of other wood products. During the years between 1907 and 1910, local economic conditions were bad. Wages were low, many workers were unemployed, and yet the prices of everyday necessities were relatively high. The Finnish consumers in Cloquet wanted a better method of supplying their needs, and they began to save money with which to start a cooperative store. Most of them could not afford even the amount of a ten-dollar share, and many shares were sold on the installment plan of \$1.00 down and \$1.00 a month. During its first few years of operation, many difficulties arose from the inexperience of the members in operating a business enterprise. By 1915, however, the members inaugurated better policies, sound bookkeeping methods, increased financial support, and more efficient management. In 1918 the store was burned down by a disastrous forest fire which destroyed most of the

town. Yet by that time, the cooperative had become so strong that it was one of the first businesses in town to reopen after the fire.

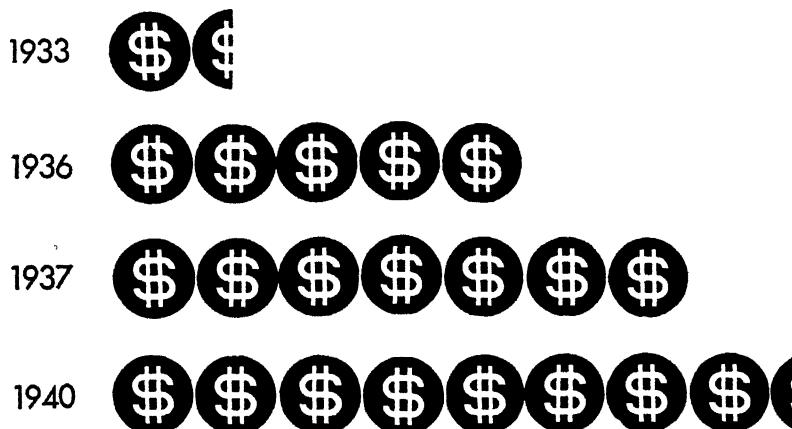
Throughout the following years, including the period of the depression, the Cloquet Cooperative Society continued to grow. By 1937 the cooperative owned four stores, ten warehouses, eight trucks, two service stations, an insurance department, an automobile sales department and a garage. It had over seventy employees. It now supplies its members with groceries, meats, hardware, dry goods, building materials and cement, farm machinery, feeds, fuel, petroleum products, automobiles, and automobile accessories. It also offers its members the services of other local cooperative organizations, especially those of a cooperative insurance agency, a cooperative burial association, and a credit union. Its total business is well over a million dollars a year.

#### THE DEVELOPMENT OF COOPERATIVE WHOLESALERS

During the years in which the cooperative in Cloquet was becoming so successful, more than a hundred other cooperative stores were organized in the area of northern Minnesota, Wisconsin, and Michigan. Leaders in many communities early recognized the advantages which would result from the federation of their organizations into a central wholesale to serve all its member cooperatives. Through such a cooperative wholesale they could unite their purchases and buy in larger quantities, thus not only saving the wholesaler's profit but also gaining more control of the quality of the goods they handled. They could also, through the combined resources represented in their wholesale, provide themselves with expert advice, auditing service, advertising and merchandising assistance, and educational services. By working together they could protect and strengthen the existing cooperatives, and help to organize new cooperatives in other communities.

A meeting was called in July 1917, in Superior, Wisconsin, to formulate a plan for establishing a cooperative wholesale. It was attended by delegates from 19 local cooperatives. This meeting decided to establish the first of the existing cooperative

## GROWTH OF COOPERATIVE WHOLESALE SOCIETIES



Each symbol represents 5 million dollars worth of business

PICTOGRAPH CORPORATION, FOR PUBLIC AFFAIRS COMMITTEE, INC.

From COOPERATIVES IN THE U S—A BALANCE SHEET

This chart illustrates the rapid increase in volume of business done by cooperative wholesale societies within the past few years

wholesales dealing primarily in groceries, the Central Cooperative Wholesale. Local cooperatives were to supply the capital for this undertaking by the purchase of shares. By the end of 1917, after the new wholesale had been in business for four months, a total of only \$480.00 of share capital had been paid in.

At present the share capital of the Central Cooperative Wholesale is nearly a quarter of a million dollars, and the largest portion of this amount has accumulated from patronage dividends which the member cooperatives preferred to invest

in their wholesale rather than accept as cash refunds. The sales of the wholesale are between three and four million dollars a year. During its twenty-three years of growth the services supplied by the wholesale have been constantly increasing. In 1919 the C. C. W. established a bakery. In 1932 it added a clothing department. In 1935 a gasoline and oil department was opened. The wholesale also began to roast and blend its own coffee, sold under the "Co-op" brand, thus enabling members to save as much as 4 cents a pound on an excellent grade of coffee. Since then it has acquired a feed mill and has opened a branch wholesale. It has established its own testing kitchen in which a trained dietician checks on the quality of the food products sold to member cooperatives. It developed a sister organization, the Cooperative Publishing Association, which publishes two weekly papers, supplies printing service, office supplies, and similar needs to local cooperatives, and publishes and distributes cooperative literature.

The Central Cooperative Wholesale engages in many educational activities. Its Educational Department assists in the organization of new cooperative stores. Each fall it conducts a ten-week training school for cooperative employees. Each summer, in connection with the Cooperative Youth League, it organizes a summer school for young people, held at a summer camp at which education and recreation can be combined. It promotes one-week institutes for both youth and adults at various places throughout its territory. It encourages the development of Women's Cooperative Guilds, which carry out important social and educational functions.

This brief account of some of the major activities of one cooperative wholesale is important as an illustration of the kind of work made possible when local cooperatives unite their efforts. Other cooperative wholesales throughout the country carry on similar activities. The Eastern Cooperative Whole-

sale has led the way in setting up standards and testing the quality of the food products handled by cooperatives. The testing kitchen is an extremely important part of the program of the Eastern Cooperative Wholesale. All samples of food products which are submitted to the buyer are graded by a highly trained dietician employed by the cooperative. When United States government grades have been established, they are used. When government grades are lacking, E. C. W. uses its own grades based on government specifications. After samples have been tested and graded, orders are placed for those which meet the required standards. Preliminary testing, before orders are placed, insures that only good quality foods are ordered, but that is not enough. Check tests are made on samples from each shipment as it arrives, to see if the products come up to the standards contracted for in the order. If the quality is questioned, samples are also submitted to the New York City government grading office for a double check. There are some products which must be tested with special equipment which the testing kitchen has not yet acquired. In such cases, as, for example, malted milk, which calls for a chemical analysis, the tests are secured through independent chemistry laboratories. Later in this chapter we shall see that the testing program of cooperatives is providing an assurance of quality that is appreciated by consumers.

The latest complete survey made by the United States Bureau of Labor Statistics shows that there were at the end of 1936 over thirty cooperative wholesales dealing in consumers' goods. Several of these wholesales, each serving member cooperatives in different areas of the country, got together in 1933 and organized National Cooperatives, Inc., in Chicago, Illinois, a central purchasing agency for those wholesales. Since the formation of National Cooperatives, the regional wholesales which own the new organization can take advantage of their combined purchasing to buy on a larger scale than

could any one of them acting alone. They are able to make contracts with manufacturers for products made according to the quality specified. They can sell those products under their own "Co-op" label, a trade-mark which is owned by National Cooperatives, and which can be used only on goods marketed through cooperatives. National Cooperatives is really an international cooperative, since two of its fourteen member-owners are Canadian organizations, the Saskatchewan Cooperative Wholesale of Saskatoon, and the United Farmers Cooperative of Toronto, Ontario.

#### THE IMPORTANCE OF THE "CO-OP" TRADE MARK

In Chapter IV we discussed the difficulties that consumers have in knowing the quality of the products they buy, and the growing demand of informed consumers for better labels which would give them accurate information. Consumers who are organized into cooperatives can provide themselves with this information. The labels on about 600 different "Co-op" brand food products, handled by cooperative wholesales and their local member associations, are examples of the most informative labeling anywhere. These "Co-op" labels indicate the grade—A, B, or C—whenever such grades are available. In addition, they give as complete a description of the contents of the can or package as possible. They often tell the amount of the contents, not only in pounds and ounces as required by law, but in cupfuls or numbers of servings, which are measurements more likely to be useful to the average housewife. Frequently they give suggestions for preparation and use of the food they describe.

Members of cooperatives are not the only ones who recognize the value of the "Co-op" trade-mark in providing information consumers need. At a meeting of the American Marketing Association a luncheon was given for 20 representative homemakers, selected because they were ordinary consumers whose



opinions the members of the Marketing Association wanted to discover. Before each woman guest there had been placed three cans of cut green beans. One can was a very widely advertised brand, and its label carried the brand name, a general description of the contents, but no indication of the grade. Another was a less well known brand, and its label carried a government grade. The third was the "Co-op" brand, which has never been nationally advertised outside of cooperative associations, and its label carried the government grade plus all the additional information which "Co-op" labels include. The women were asked which can they would choose if their grocer offered them all at the same price. Three chose the widely advertised brand, and seventeen the one with the "Co-op" label.<sup>4</sup>

#### COOPERATIVE HOUSING ASSOCIATIONS

In many places in the United States, consumers have been able to improve their ability to secure the food they need through organizing their own cooperatives, but in only a few places have they attempted to use the same cooperative method to provide themselves with shelter. The United States Bureau of Labor Statistics reports that in 1936 there were 48 cooperative housing associations in this country, and that most of them were cooperative apartment houses located in the area of Greater New York. Several of these have proved to be outstanding successes.

The largest cooperative housing enterprise in the country is that of the Amalgamated Housing Corporation in New York City. Its property consists of four groups of buildings adjoining Van Cortlandt Park, containing 635 modern apartments with large rooms, electric refrigerators, and incinerators. The corporation owns its own generating plant and produces

<sup>4</sup> As reported in *The Cooperator*, official news organ of the Eastern Co-operative Wholesale, Brooklyn, New York, June, 1940, p 3

its own electricity. In addition to apartment houses, the members own their own cooperative grocery store, distribute their milk cooperatively, own a cooperative laundry, and operate a bus service. They have a credit union, through which members may borrow money from their own organization. There are playgrounds, and nursery and kindergarten rooms for the children, and there are halls and community rooms which are used by all of the members for classes, club rooms, public meetings, and social affairs.

The first buildings of the Amalgamated Housing Corporation were completed in 1927. The idea of building cooperative apartments had originated among a group of members of the Amalgamated Clothing Workers' Union, but the residents are from many different unions, and some are not trade-unionists at all. Two-thirds of the original capital needed to buy the land and build the apartments was raised by a mortgage loan, but the prospective residents contributed the rest of the money by the purchase of shares. The amount of money contributed by each member depended upon the number of rooms he expected to occupy. In addition to the initial purchase of shares, the members make monthly payments to cover their part of such expenses as taxes, insurance, upkeep and repairs, and fuel. At the end of the year, patronage dividends are refunded in proportion to the amounts of money paid in.

At their annual meeting in May, 1940, the 635 family members of this "house without a landlord" voted to pay themselves \$27,933 in patronage dividends for the preceding year, and reported that more than \$100,000 had been returned in this manner since 1927. The history of the Amalgamated Housing Corporation illustrates a way in which cooperation can bring home ownership within the reach of many wage earners, even in a large city in which buildings are very expensive and rents are correspondingly high.

An important reason why there are so few cooperative hous-

ing associations is the high cost of the ownership of land and the construction of buildings. There are many cooperatives, organized among students of colleges and universities to provide themselves with food and shelter, which make no attempt to buy buildings or land. Instead they rent buildings large enough to accommodate their members, equip them with the necessary furnishings, employ cooks and housekeepers, and enable the members to share their living expenses during the time that they are away from home attending school. These student cooperatives are controlled by their members. Their experience has shown that through the cooperative method hundreds of students in dozens of colleges have been able to reduce their living expenses to a remarkably low figure. In many cases the student members are able to do some of the work, such as cleaning their rooms, washing dishes, or peeling potatoes, and thus make additional savings possible.

A new kind of consumers' cooperation in building homes to be owned individually by the members of the cooperative has been found very successful. The first organization to carry out this plan was the Cooperative Housing Association of St. Paul, Minnesota. About thirty consumers who wanted to build and own their own homes formed a cooperative through which to do the job more economically. They purchased a desirable tract of land within the city, which had become the property of the state because of tax delinquency, and took the necessary legal measures to secure clear title to the land. Then they sold to each individual member a lot of the size he wanted. The cooperative employed an architect, who drew plans for each member according to his own wishes. After plans were drawn, the cooperative was able to ask for bids on prices of large quantities of materials, lumber, and equipment. Because the members were buying in quantity they were able to secure much lower prices. The cooperative could, for example, order a carload of bathtubs or furnaces directly from the factory instead

of having each member buy his own. It could make use of new types of building material. Each member made a small down payment on his home, and secured a loan for the rest of the amount by means of a mortgage guaranteed by the Federal Housing Administration. Because these consumers had organized a cooperative they were able to get expert investigations and advice with regard to the best kind of building materials and methods. After the houses were built, each member owned his own house just as if he had built it independently of the others; but because he had cooperated with other consumers in buying the materials and the services needed to build his home, he had made a very considerable saving. The legal adviser of the Cooperative Housing Association estimates that this saving amounts to between \$1000 and \$1500 on each house built. The plan was so successful that even before it was completed a similar cooperative was organized in the adjoining city of Minneapolis, and the second project is now being carried out. Members of these cooperatives believe that if numbers of such cooperatives could be organized, and if they could all combine their orders for building materials and equipment, they would be able to buy materials of still better quality at even greater savings.

#### COOPERATIVE INSURANCE SERVICES

In Chapter VII we saw that consumers' needs include services as well as goods, and that one of those needs is for some means of protection against unexpected losses due to many kinds of misfortune. Such protection takes the form of insurance. Earlier in this chapter we saw that from about 1820 until the present time American farmers have cooperated with others in their own locality to provide themselves with insurance against fire, and often against destruction from storm. American history contains a few illustrations of this kind of insurance even before the 1820's, some of them occurring be-

fore the time of the American Revolution. Records show that a "Friendly Society for a Mutual Insuring of their Houses against Fire" was founded in Charleston, South Carolina, in 1736. In 1752 Benjamin Franklin helped to organize the "Philadelphia Contributionship," an organization of the same kind, which is still in existence.<sup>5</sup>

It is a natural thing for neighbors to get together to help one of their number who meets with misfortune. Before any formal organizations had even been founded, it was customary to give all possible help to one whose home had been destroyed by fire. In the earliest pioneer days, neighbors would get together and build a house to replace one that had been burned, and would contribute to its furnishings some of their own possessions. It is also natural that this kind of informal co-operation should result in definite organizations to carry out such an important activity in a business-like way. The farmers over much of the United States organized their township mutual insurance companies, of which nearly 2,000 are in existence today. Nearly half of all the farmers in the country are policy-holding members in these insurance companies of their own, and more than half of the insurable farm property is covered by insurance issued by these companies.<sup>6</sup>

An example of the business of one of these township mutuals will illustrate why this kind of organization makes savings possible. The Farmington Mutual Fire Insurance Company of Osceola, Wisconsin, operates chiefly in one county. It was organized in 1878. It now has about 1,300 members and has insurance of about five million dollars in force. Its members know each other, and therefore have an advantage over large companies located at a distance. If someone in the community should be what insurance companies call a "bad moral risk,"

<sup>5</sup> *Encyclopedia of the Social Sciences*, Vol VI, p 255 (N Y, 1937)

<sup>6</sup> Daniels, John, *Cooperation—An American Way*, New York, 1938, pp. 120-121.

that is, if he is extremely careless or if he might set fire to his own buildings in order to collect insurance, the members of the mutual are likely to know about it without making an expensive investigation which a large company would have to make. When fires occur, investigation into their causes can be made by the Farmington Mutual at low cost.

Members of the Mutual meet annually, and elect directors and officers. The Farmington Mutual is not satisfied with merely charging premiums and paying claims, but it is interested in preventing losses due to fire. For that reason it has adopted a "merit rating," which is a schedule of premium rates which become lower for those members who take certain precautions against fire. Telephones, lightning rods, fireproof roofs, well-constructed chimneys, the installing of spark arrestors on chimneys to prevent burning fragments from escaping, are all items which result in lower rates. Officers and directors of the Mutual make annual inspections of the property of all insured members, to make sure that prevention measures are carried out. And the members are eager to install such safeguards, and to see that their fellow-members do likewise, because at the end of the year some part of the premium each member has paid may be returned to him if the losses have been small. Instead of being made in cash, this patronage refund is deducted from the next year's premium. During the past four years the Farmington Mutual has refunded in this manner an average of 25 per cent of the premiums paid. While the Farmington Mutual is one of the more progressive of the township mutual companies, especially with regard to the fire-prevention measures it encourages, yet most farmers' mutual companies follow many of the practices which have been described; and their low operating expenses make it possible for them to give their members insurance against fire and storm at much lower rates than are otherwise available.

Another important saving results from the method of sell-

ing insurance. Ordinary commercial insurance companies have agents to sell their policies, and the agents must receive enough in commissions to enable them to earn a living. They often compete with each other, and the insurance salesmen must convince prospective policy-holders that the policies sold by their particular companies are the best. It is not necessary for the farmers' own companies to incur such selling expense. Those who want insurance usually know that their best and cheapest protection can be obtained from their local mutual company, and they buy their insurance on their own initiative, rather than have it sold to them by a salesman. A man who has built a house may go to the secretary-treasurer in a small, inexpensive office, and have his property insured. Often the company may not even have an office, but may carry on its business from an extra room in the home of one of the farmers who is an officer in the company, with only the part-time help of paid employees. Even when some of the larger organizations find it necessary to have several employees, and to offer small commissions to members who bring in new policies, their expenses of operation are so low that the large commercial companies, recognizing that they cannot hope to compete, are not likely to try to sell insurance in territories covered by the organizations owned by the farmers themselves

The farmers' mutuals are able to make further savings because there are no profits. While most of them do not make patronage refunds to their members in the same manner as other forms of cooperative organizations, they do return the savings in a different way. They usually charge premium rates that are as low as possible. If these rates are more than enough to cover the claims paid for losses during the year, a reserve may be set aside for unexpected and large losses, and the rest of the surplus may be applied to the amount which they would otherwise need to collect in premiums the following year. Thus the members, instead of receiving a refund on the premiums

they paid the previous year, are charged correspondingly less for their premiums for the following year. The result is the same as if a patronage dividend had been paid. One farmers' mutual in Minnesota charges a premium of 20 cents per \$100.00 for the first year, and after that charges no premium at all, until additional funds are needed to build up a reserve which has been lowered by the payment of claims.<sup>7</sup>

Some of the premiums charged are as low as 11 cents per \$100.00. The average cost for all the farmers' mutual companies combined, in the year 1935, was 24 cents per \$100.00. For that same year the rates of commercial companies ranged from 50 cents to \$2.00 per \$100.00. These savings are so important that farmers are not the only ones who take advantage of the low rates, and in 1935 nearly one-twelfth of the insurance in force was on property belonging to consumers in towns and villages, who had joined the farmers' organizations.<sup>8</sup>

#### COOPERATIVE AUTOMOBILE INSURANCE

The widespread use of automobiles has made another kind of insurance necessary. In 1919 a group of farmers in Minnesota, who had learned the advantages of township mutual

<sup>7</sup> Daniels, *op. cit.*, p. 122.

<sup>8</sup> Daniels, *op. cit.*, pp. 112-126.

Note Although farmers' mutual insurance companies are democratically controlled cooperative organizations, this does not mean that all mutual insurance companies are controlled democratically by their members, for such is not the case. Some of the largest life insurance companies in the United States are mutual companies, and write insurance throughout the whole country. All of their policy-holders are legally entitled to vote, but it is obviously impossible for hundreds of thousands of policy-holders to travel thousands of miles to attend an annual meeting in New York City to exercise their voting privileges. The laws under which these companies are incorporated provide for proxy voting, and employees of the company collect enough proxies to cast the vote at the annual meeting. It is true that the large mutual life insurance companies can and frequently do pay dividends to policy-holding members, but the great majority of the members have had no voice in determining how much dividends are to be paid. These large mutual companies are, therefore, not consumers' cooperative organizations, even though small mutual companies, with membership concentrated within a limited area, may be truly cooperative.



fire insurance on their buildings, decided to organize a local mutual insurance company to insure their automobiles against fire, theft, and tornado. They incorporated under the long name of "American Farmers Mutual Automobile Insurance Company," and for many years did business as a small local mutual. In 1934 they decided to expand. They began to write automobile insurance of all kinds, by adding liability, property damage, and collision insurance to their original insurance against only fire, theft, and tornado. In 1937 the company did 19 times as much business as it had done in 1934. The reason that this small local mutual could expand as it did was that Minnesota cooperatives decided to sponsor the new automobile insurance. The two cooperative wholesales, whose membership includes hundreds of local cooperatives in the state, endorsed American Farmers, and the insurance policies are sold through the local cooperatives all over the state. A similar automobile insurance company, the Cooperative Insurance Mutual, was organized in Wisconsin, and is likewise sponsored by the cooperative associations in that state.

Cooperative insurance companies usually face one important problem—that of maintaining democratic control in a large organization. Most insurance laws make such control difficult, because they provide for proxy voting. It is possible for the annual meeting to be attended by only a small minority of the membership, and this minority determines all important questions. Cooperators, desiring to insure democracy in their organizations, face the same problem that we have faced in maintaining political democracy in a large state, or a large nation. The only way we have found to make democracy work is to make use of the method of electing representatives to do our voting for us. We elect persons to represent us in state legislatures and in Congress, and in that way we can indirectly make our own laws and control the policies of our government. Members of cooperatives follow the same policy of electing

delegates to represent them at the annual meetings of their large organizations. Local cooperatives can expect most of their members to attend the annual meeting. But cooperative wholesales are controlled by annual meetings of delegates selected by the local cooperative associations. Our laws, however, do not permit insurance companies to use this method. Consequently, when mutual insurance companies become too large, they must either give up the principle of democratic control, or devise some way to make democracy work in their organizations in spite of the law. The American Farmers in Minnesota and the Cooperative Insurance Mutual in Wisconsin have made an important contribution to cooperative insurance by working out a method by which they can observe the law and still run a large organization democratically.

We have seen that insurance policies are sold through local cooperatives. The policy-holding members agree that, if they cannot attend the annual meeting in person, they will give their proxies to the cooperative organizations through which they obtained their policies. The cooperative then selects a delegate to go to the annual meeting and cast the votes of all of its proxies. It can instruct the delegate how to vote on important questions to come before the meeting. And since the policy-holding members who have given up their proxies are also members of the cooperative, they themselves select the delegate and tell him how to vote.

The largest automobile insurance cooperative in the United States is the Farm Bureau Mutual Auto Insurance Company, with headquarters at Columbus, Ohio. The Farm Bureau Mutual sells automobile insurance through cooperatives in nine states and in the District of Columbia. It was established in 1926 by members of the Ohio Farm Bureau Federation, who had previously founded several other kinds of cooperative organizations, and who wanted to go into one more field of providing themselves with a necessary service.

## COOPERATIVE HEALTH SERVICES

An earlier chapter in this book has been devoted to the needs of consumers for health services. In that chapter we considered some of the methods by which attempts are being made to meet those needs. We saw that here and there throughout the country doctors are forming partnerships and offering their services to consumers in return for fixed monthly payments. We saw that many proposals are being made for an increase in the health services provided by government. We know that consumers are organizing cooperatives through which to provide themselves with the medical, dental, and hospital care that is so important to their welfare.

Cooperative medical care is a kind of service in which interest is steadily growing. Groups of consumers, some of them already organized in other cooperative associations, are studying existing medical cooperatives and formulating plans for organizations which will meet many different situations. They face numerous problems. In many states the existing laws make it difficult, if not almost impossible, to organize medical cooperatives. In many localities, hospital administrators and members of the medical profession oppose medical cooperatives, and by their opposition can prevent their development. But there are also many doctors who believe that medical cooperatives can make a worthwhile contribution to the achievement of the aim of all doctors, the extension of good medical care to all of the people.<sup>9</sup>

In spite of the difficulties mentioned, there are now many examples of medical cooperatives operating successfully in the United States. A brief description of a few of them will help

<sup>9</sup> For a brief but excellent summary of arguments on both sides, including quotations from recognized authorities, see "The Problem of Cooperative Medicine" by V. J. Tereshtenko, published by the Federal Works Agency, and distributed free on request by the Cooperative Project, 625 Madison Ave., New York City.

to illustrate some of the principles which cooperative medical associations try to follow.

In Chapter VIII mention was made of a cooperative organization which provides its members with hospital care insurance. This association, the Group Health Mutual, of St. Paul, Minnesota, was incorporated in 1939. Its immediate aim was to provide insurance for hospital care, a service which its members wanted even though there already existed an organization, owned and controlled by an association of hospitals, which provided a similar service. Members of Group Health Mutual wanted to provide this service for themselves through a cooperative, primarily for three reasons. First, they believed in consumer cooperation and wanted to own their own organization, and control it democratically. Second, they believed that they could provide themselves with a better service than that already available through the existing hospital association. Third, they wanted to build a membership large enough, and an organization strong enough, so that they could extend their services to include complete medical care as soon as practicable. Group Health Mutual now has a membership approaching 10,000, the majority of whom live in Minneapolis and St. Paul, many of whom live in other parts of Minnesota, and a few of whom live in places as far away as New York City. It has been able to provide its members with a better service than that provided by any other agency in its territory. It is developing plans for providing complete medical care for its members.

Another organization mentioned in Chapter VIII is the Group Health Association of Washington, D. C. This cooperative organization began offering complete medical care from its very beginning, in November, 1937, and by November, 1938 was providing medical service to over 5,000 individuals. It owns its own modern, well-equipped clinic, and employs ten well-qualified doctors at salaries that are higher

than the average yearly earnings of doctors in private practice. It also employs nurses, technicians, and a pharmacist. Members of Group Health Association pay fixed monthly fees, the size of which varies with the size of the family. They receive medical examinations, and, even if they have no specific illnesses, they receive advice and care to prevent disease. They receive eye examinations and minor surgical operations in the clinic, and if hospitalization is necessary for a major operation, the Association pays the greater part of the hospital costs. The business of the Association is controlled by the members through officers, council members, and group committees, all of whom are elected by the membership. They choose the medical director, who is a physician, and he has charge of all of the medical aspects of the work, including the selection of physicians and other members of the staff. Group Health Association was more fortunate than many medical cooperatives in that it was able to borrow money with which to get started from a government agency. It has not been so fortunate in the opposition which it had to face from organized medical groups. At one time the physicians on its staff were denied the use of Washington hospitals. One of its staff members was expelled from the district medical society. A question was even raised as to whether the Association was legal, but this was decided in favor of the Association by the courts. In spite of these troubles the Group Health Association is operating successfully, providing its members with better medical care than they would otherwise receive.

In 1935 an entirely different kind of medical cooperative was organized, in entirely different circumstances, in Economy, Indiana. Economy is a small village. Its population together with that of the surrounding farming community consists of about 300 families. It was not a community which offered much of an opportunity for a doctor to develop a very large practice. In ten years at least four different physicians came to Economy

and went away, and for a considerable period of time the community was without the services of any physician. In order to insure themselves the services of a doctor, some of the consumers in Economy organized the Economy Mutual Health Association. Membership is open to residents of the village and its vicinity within a radius of seven miles. Individual members pay \$1.85 every three months, and families pay \$3.90. For these payments, members are entitled to medical treatment at home and in the doctor's office, to physical examinations, and to ordinary drugs and medicines. The doctor receives all of the dues except 5 cents out of each payment, which go for administrative expenses. The doctor takes care of all the members of the cooperative, and in addition is free to practice outside of the cooperative membership. Through the cooperative, a definite yearly income has been provided for a doctor, and this certain income has made it possible for him to stay in Economy. Thus the cooperative has benefited not only its members but all non-members in the community. Its members have, in addition, provided themselves with medical care, much better than they had before, at a very low cost.

Among the cooperative health organizations of various kinds in the United States there is only one that owns and operates its own hospital, and is therefore able to provide its members with complete health care. That one is the Farmers' Union Cooperative Hospital Association, at Elk City, Oklahoma. It was started through the efforts of a local physician who, though he had a very successful private practice, was sincerely concerned because he knew that the people in his community were not getting the medical care they should have. After studying many methods by which better medical care might be provided for them, this physician decided in favor of a cooperative organization of the people themselves. For nearly two years the founder and a few members worked to secure enough membership fees with which to build a hospital. The young

organization had to face considerable opposition, but in securing the official support of the Oklahoma Farmers' Union in 1934, it secured the assistance of existing cooperatives which were united in a state-wide organization.

The first unit of the hospital was completed in 1931. The association now has a membership of between two and three thousand families. Each member pays a membership fee of \$50.00, which may be paid in installments. The capital raised from these fees is used only to pay for hospital land, buildings, and equipment. The rates paid by the members vary according to the size of their families, but the largest family may secure complete medical, surgical, and dental care for all of its members for \$25.00 a year. The medical staff consists of several doctors, including specialists, and two dentists. The affairs of the organization are democratically controlled by its consumer-members. They elect a board of directors, which selects and employs a manager to take care of the strictly business aspects of the organization. The board also selects the medical director, who is in charge of all of the medical and professional work, and who selects the other members of the medical, dental and nursing staffs.<sup>10</sup>

Members of cooperative health associations, and others who advocate cooperative medicine, believe that there are certain important principles which should be followed in order that the best medical service may be made available to consumers at a cost which they can pay.

First, they believe that group practice should be followed whenever possible. Group practice means the association of many doctors, including specialists, around a clinic furnished with the latest technical and medical equipment. Modern medical science involves the use of so much expensive equip-

<sup>10</sup> Shadid, Dr. Michael A., *A Doctor for the People*, New York, 1939, a book written by the founder and medical director of the Farmers' Union Cooperative Hospital Association, presents an absorbing story of its difficulties and achievements.

ment that few doctors practicing independently can afford all that is desirable. On the other hand, if several doctors are associated with each other in a clinic, they can afford to buy the best modern equipment, and that equipment will be frequently used. But an even more important advantage of group practice results from the cooperation of many doctors, including those especially trained and experienced in all branches of medical science. Modern medicine is too broad a field for any one individual doctor to gain enough knowledge and experience to become expert in all of its branches. Physicians associated in a group find it easier to consult with each other, each may have the benefit of the experience of the others, and patients can more readily receive accurate diagnosis and treatment. Specialists may find it easier to carry out important research and to practice medicine at the same time. The advantages of group practice are so apparent that those who advocate cooperative medical care find little disagreement with regard to this particular principle in which they believe. Some of the most noted physicians and surgeons in America are strong advocates of group practice, and such well-known privately-owned medical centers as the Mayo Clinic at Rochester, Minnesota, demonstrate its value. The report of the Committee on the Costs of Medical Care<sup>11</sup> recommends the encouragement of group practice of medicine.

The second principle of cooperative health associations designed to develop better medical care is an emphasis on preventive medicine. From the point of view of the consumer, the value of preventive medicine is obvious, for it is both cheaper and less painful to keep well than to get well. Yet very few people receive the yearly physical examination which doctors recommend, and few consult a physician at the first sign of illness. One of the reasons for this neglect of preventive medicine on the part of consumers is habit—it does not occur to

<sup>11</sup> Chapter VIII, p. 143



them to use the services of a doctor as long as they feel well. Another reason is that they hesitate to incur doctor bills unless they think those bills are really necessary. At the first signs of illness, they are inclined to put off medical care, hoping that they will get well anyway, and forgetting that delay may mean a far greater expense and far more suffering than would otherwise be necessary. Doctors know the value of preventive medicine, but they too rarely have the opportunity to practice it. Cooperative health associations are able to give doctors greater opportunities to prevent illness, and to encourage consumers to make use of preventive care. Physical examinations are usually required. Members may consult doctors at the first sign of illness without worrying about the cost, because they are paying on a monthly basis whether they are sick or well. For in a cooperative health association, members pay their doctors to keep them healthy as well as to cure them when they are ill.

The principle of preventive medicine is closely tied up with the third principle advocated by cooperative health associations, that of periodic payment for medical service. When consumers pay each month a small amount of money to take care of whatever medical care they need, they feel free to consult their doctors whenever it might be necessary. They do not need to try home remedies or patent medicines in an attempt to save money. Nor do they need to worry about large, unexpected medical bills. They are able to budget their expense for medical service over long periods of time. The doctors are assured a good income. They know that they will receive just as high a salary if their patients stay well as they will if they get sick. They no longer need to worry about the problem of recommending expensive treatment to a patient who cannot afford the treatment he needs.

The fourth principle of cooperative health associations is that the control of the associations should be in the hands of the consumers who use their services, and that this control

should be exercised in a democratic manner. It is this feature to which many members of the medical profession object more than to any of the others. They believe that the doctors themselves are the ones best qualified to control the method by which they provide their services to consumers. They fear that control by ordinary consumers who have little or no knowledge of the science of medicine may result in handicapping the progress of medical care. Doctors who have practiced in co-operative health associations seem to have no such fears. They point out that the consumer-members do not control the medical part of the work of the association, but leave that to the medical director. The members control only the business end of the work of the cooperative, and relieve the doctors of such disagreeable tasks as the collection of bills, the payment of rent on their offices and bills for electricity. The doctors are free to devote their entire time and energy to the work of medical service.

#### RURAL ELECTRIFICATION COOPERATIVES

In the previous chapter, when we were considering the ways by which consumers are satisfying some of their needs through government action, one of the government activities described was that of the Rural Electrification Administration. We saw that the law which created the REA provided for government loans for the purpose of extending electric energy into rural areas, and that about 90 per cent of those loans have been made to cooperative organizations. By 1939 over 600 electrification cooperatives had been organized under the REA. But even before the government began lending money for rural electrification, at least 45 rural electrification cooperatives had been organized without outside assistance.<sup>12</sup>

A rural electrification cooperative operates in a manner similar to that of other consumers' cooperative organizations.

<sup>12</sup> Parker, *op cit*, p 88

Those that were organized before the REA program was started had to raise their own capital by selling shares to their members. Those borrowing from the REA do not need to sell shares, but they must each year pay back to the government a part of the money they borrowed. Each month, when a member of such a cooperative pays his electric bill, he pays a sum large enough to cover not only the cost of the electric current he has used, but an additional small amount to be used to repay the loan. After the borrowed money, with interest, has been paid back to the government, the local cooperative will have complete ownership of all of its facilities, and its charges for electricity will be considerably reduced.

The officials of the Rural Electrification Administration give several reasons why cooperative organizations are especially adapted to the task of extending low-cost electricity into rural areas.<sup>18</sup> In the first place, they have found that the extension of electricity over wide areas can be achieved more readily by a non-profit enterprise than is possible when a private utility must consider the probability of getting quick and substantial profits on its investment. In the second place, the progress of rural electrification is increased considerably by the fact that the users of the electric services provided by a cooperative are not only customers, but members and prospective owners as well. They have a part in the determination of policies. They have an interest in getting more members, because the rates that they pay can be lowered by increasing the number of consumers of electricity. They want their organization to be run efficiently, and they want to contribute to its success.

Some interesting illustrations of ways in which consumer-members are contributing to the success of rural electric cooperatives have been reported to the REA. It is the usual thing for members to donate their time and services in getting other

<sup>18</sup> 1938 Report of the Rural Electrification Administration, Washington, U S Government Printing Office, 1939, pp 41-51

people to join. They willingly give the cooperative the right-of-way to build power lines across their property. In some cases they even go out of their way to see that their own bills are paid promptly and with little cost of collection. A project supervisor in Ohio reported that one member notified the cooperative that, in case he should not be at home when his bill was delivered, the collector would find a signed check, made out to the cooperative with the amount left blank, in a sealed glass fruit jar placed near a certain fence post. The case is even reported of a member who believed his bill was too small. The meter on his farm had been put out of order by a bolt of lightning. The cooperative, unable to know how much electricity he had used, sent him a bill for \$4.28 because that was the amount of his bill for the last month during which his meter was working. But the farmer sent in a check for \$8.00 with a note saying that he was sure that he had used at least that much electricity.

A final advantage attributed to rural electrification cooperatives is the way in which they contribute to the development of community participation in a democratically controlled enterprise, an understanding and appreciation of the democratic method and of the things it can accomplish.

#### CREDIT UNIONS: THE COOPERATIVE METHOD OF PROVIDING CREDIT FOR CONSUMERS

Just what do we mean by credit for consumers, and why is the problem of securing consumer credit an important one? Most consumers need credit at one time or another, and many of them get credit in a variety of different ways. They secure consumer credit whenever they buy something for which they do not pay cash. They may charge their purchases and pay at the end of the month, or they may buy on the installment plan and take a year or more to pay. In either case they are making use of consumer credit. They may become ill, and make

use of the services of doctors even though they cannot pay for those services until a later date. Thus they are using another kind of consumer credit. Or they may borrow money from friends, or from any number of different kinds of lending agencies. Again they are making use of credit for consumers. In other words, whenever consumers buy goods for which they do not pay in full at the time of purchase, whenever they use services for which they do not pay at the time the service is rendered, or whenever they borrow money with which to pay for goods or services, they are making use of consumer credit.

For a long time consumers made much less use of credit than they do now. Ordinary commercial banks lent large sums of money for purposes of production—for building factories, for expanding business operations, and for similar enterprises. But they would not ordinarily lend money to consumers, for purposes of buying consumer goods and services, unless the borrower owned valuable property which he could pledge as security for the loan. A consumer could borrow a part of the money he needed to buy a house, because he could give the bank or other lending agency a mortgage on that house. If he could not repay the money he had borrowed, his creditor could foreclose the mortgage and become the owner of the property.

In recent years, the use of credit by consumers has expanded a great deal. A large part of this increase is due to the widespread sale of household furnishings and automobiles on the monthly payment installment plan. Other uses of consumer credit have resulted from the development of many agencies which exist for the sole purpose of lending relatively small sums of money to consumers. Experts have estimated that in 1936 consumers made use of credit amounting to 14 billion dollars a year, and this amount did not include loans from friends, loans made on insurance policies, or loans secured by mortgages.<sup>14</sup> The use of such a large amount of consumer credit

<sup>14</sup> "Selling Credit to Consumers," *Consumers' Guide*, January 30, 1939, p. 11.

indicates that there must be a real need for credit on the part of most consumers. It is true that some of this credit is used because of convenience rather than because of real need. Many consumers, for example, charge their purchases at the store not because they cannot afford to pay cash, but because it seems easier and simpler to pay at one time at the end of the month. But aside from some of the purchases made on charge accounts, that 14 billion dollars is an indication that consumers do need to borrow money.

Why do consumers need to borrow money? There are many reasons. Perhaps the most important one is the fact that most consumers earn barely enough to pay for their ordinary needs. Few are able to save enough money to meet emergencies. Many whose incomes are sufficient to allow for some saving, neglect to put aside what they can. And when they are faced with some unexpected expense, they must borrow money in order to meet it. Another reason consumers borrow money is in order to take advantage of some opportunity for advancement. Students or their parents, for example, borrow money for a college education. Many more consumers make use of installment credit because of the extensive advertising of "easy-payment plans" and the desire to own many of the modern conveniences that are sold at prices too high for the average person to pay at one time.

The use of credit is a service for which consumers must pay, just as they must pay for the use of other services. In case of installment credit, the amount which the consumer pays is usually called a "carrying charge," and in case of charge account credit the amount which the consumer pays is usually a part of the price of the goods he buys. In case of other forms of credit, the amount which the consumer pays is called interest on borrowed money.

The cost of credit to consumers often depends upon the financial standing and the reputation of the one who borrows

# WHO LENDS MONEY TO CONSUMERS

(ESTIMATED LOAN BALANCES OF CONSUMER  
LOAN AGENCIES AT CLOSE OF 1940)



**BANKS - PERSONAL  
INSTALLMENT LOANS**



**SMALL LOAN  
COMPANIES**



**INDUSTRIAL  
BANKING  
COMPANIES**



**CREDIT UNIONS**



**PAWN BROKERS**



**LOAN SHARKS**



Each symbol represents 100 million dollars

Preliminary estimates supplied by Department of Consumer Credit Studies,  
Russell Sage Foundation

PICTOGRAPH CORPORATION, FOR PUBLIC AFFAIRS COMMITTEE, INC.  
*From LOAN SHARKS AND THEIR VICTIMS*

money. It also depends upon the kind of lending agency from which the money is borrowed. In Chapter V, when we considered the cost of installment credit, we saw that the "carrying charges" ranged all the way from an amount equal to an interest rate of 6 per cent to a rate of 106 per cent. Interest rates varying from 30 per cent to 50 per cent on installment purchases are not unusual. Another kind of lending agency, the pawn shop, lends money to consumers who deposit some article of personal property which is worth more than the amount of the loan. The average interest rates charged by pawn shops are around 36 per cent. Personal finance companies, which lend more than twice as much money to consumers in the United States as any other kind of lending agency, charge interest rates averaging 36 per cent. Illegal lenders, called loan sharks, charge interest rates which average between 240 and 480 per cent, and it is estimated that each year these exorbitant rates are paid on loans totaling 119 million dollars. Since most of the loans are small, this figure means that the number of people who are victims of loan sharks is very high, and as a rule those consumers who have to borrow money from loan sharks are those in the lower income groups, who can least afford to pay a high rate of interest.<sup>15</sup> In fact, one of the most unfortunate aspects of the cost of consumer credit is the fact that too often the only consumers who can obtain credit at reasonable rates of interest are those who need credit least.

The figures quoted in the above paragraph give one kind of picture of the need of consumers for credit, and of the amounts they pay for the credit they receive. Another kind of a picture might portray their needs more vividly. A story might be told of thousands of actual cases of consumers, all of them badly in need of a way to borrow money at reasonable interest rates,

<sup>15</sup> Estimates as to rates of interest and amounts of loans are taken from Foster, L. R., *Credit for Consumers*, Public Affairs Pamphlets, No. 5, 1936, pp. 19-22.



who became entangled with loan sharks and incurred debts which constantly grew larger, debts which the loan companies never wanted to collect, because the interest they received amounted to so many times more than the amount of the original loan. An account might be given of the studies that have been made of the reasons why such loan shark companies could exist in violation of the law; and of the conclusions that they flourish partly because the highest rates of interest permitted under many state laws—rates of 6, 8, or 10 per cent—are too low to provide enough incentive for the average bank or other legal lending agency to lend money to large numbers of consumers. Banks have long regarded 6 per cent interest as more than adequate for loans for business purposes, or for loans to those who could give mortgages on real estate as security. But they have not been eager to supply consumer credit to the great majority of consumers, whose incomes are low, and whose possessions are few. Expenses of investigation, the costs of collection, and the possibility of loss were too great to make loans of 6, 8, or 10 per cent profitable.

A realization of the full extent of the evils of the loan shark system resulted in measures intended to help consumers of credit. Remedial loan societies, frequently founded by philanthropic individuals who did not want a large return on their money, were organized in many cities, to provide credit at lower cost. Many states passed laws permitting the organization of personal finance companies to lend money to consumers at interest rates averaging 36 per cent a year. In states in which these personal finance companies are in operation, the business of the loan sharks has dwindled and often nearly disappeared. The evils that accompanied their illegal lending have been eliminated. But 36 per cent a year is still a pretty heavy burden for borrowers to carry. The personal finance companies can help to remedy the most serious abuses of the loan shark busi-

ness, but they cannot meet the need of consumers for an adequate source of credit at a cost they can afford to pay.

It has remained for consumers themselves to meet this need through cooperative organizations called credit unions. A credit union is an organization of consumers who are associated with each other in daily life. They may work for the same company, or live in the same community, or belong to the same club or the same church. They form an association through which to build up a fund with their own savings, to be used to make loans to members who need them. Only members may put their savings in the credit union, and only members may borrow from the credit union. Only members may take part in the management and control of the organization. The primary purposes of credit unions are to provide their members with the opportunity to secure the credit they need at low cost, and to give them the opportunity to save money in organizations which they own and control. To achieve these purposes, credit unions encourage thrift and savings, and educate their members in the wise use of credit.

Credit unions are organized and chartered under either state or federal law. Those chartered under state law are supervised by the state banking department, and those under federal law by the Farm Credit Administration. These laws require credit unions to follow sound business practices and definite rules of operation. They also demand the observance of recognized principles of consumers' cooperation. Each member has one vote and only one, regardless of the number of shares he owns. No proxy voting is permitted. Although each member must own at least one share, the amount of each share is small, usually \$5.00, and it can be paid for in small monthly or weekly payments. The amount of interest or dividends paid on shares is limited by law, usually to 6 per cent, and although members may vote to pay a lower dividend they may not raise it above the maximum set by law. Credit unions are required to set aside

a certain proportion of their earnings as a reserve fund with which to take care of possible losses, but after that reserve is deducted, the earnings are paid to the members as dividends. Most credit unions pay these dividends in the form of interest on money which their members have saved and invested in shares. But the practice is increasing of returning a part of the earnings to those who have borrowed money, in proportion to the amount of interest they have paid on their loans. Many leaders in the credit union movement favor this newer practice. They point out that consumers use credit unions in two ways—as a place in which to invest savings, and as an agency from which to borrow money, and that if all consumers are to share in the earnings in proportion to the extent of their use of the services, then those who borrow money and pay interest should receive their share, along with those who invest savings.

Members who borrow from a credit union repay their loans by paying a certain amount each month. Credit union laws provide that the interest charged on loans may not exceed one per cent a month on the unpaid balance of the loan. Credit unions may, however, fix their interest rates at an amount lower than this annual rate of 12 per cent. But the highest possible credit union interest rate is exactly one-third of the average rate charged on personal loans by most other agencies. It is lower than the cost of a large part of installment credit. It is the least expensive way to borrow money for all but a very small proportion of the consumers in the country. At the same time the dividends which credit unions pay on shares are higher than those of most other equally safe forms of investment.

The growth of credit unions in the United States is evidence of their success in providing consumers with necessary services. The first credit union law was passed in Massachusetts in 1909. It worked so well that a few years later President Taft called it to the attention of governors of other states. About six years later North Carolina enacted a similar law. Experience in these

two states indicated the value of credit unions, but if their services were to be extended into other parts of the country, state laws authorizing them to operate were necessary. In order to hasten the passage of credit union laws, and to inform consumers of the credit union method and its possibilities, Edward A. Filene organized the Credit Union National Extension Bureau in 1921.

Credit union members regard Mr. Filene as the founder of the credit union movement in the United States. From 1921 until 1934 he financed the work of the National Extension Bureau, which helped to secure the passage of credit union laws in 37 states and the District of Columbia. Over 3,000 credit unions were organized during this period. In 1934 the Federal Credit Union Act was passed by Congress without a dissenting vote, and it is now possible to organize credit unions under a federal charter even in the few states which have no state credit union law.

Credit unions, like other forms of consumers' cooperative enterprise, find it worth while to unite with each other for certain purposes. They have organized state leagues of credit unions, through which they share experiences, coordinate their efforts in organizing new credit unions, and provide themselves with expert advice. In many cases they have organized central state-wide credit unions, with membership open to local credit unions and their officers, committee members, and directors. These central credit unions will make loans to the officers and committee members of local credit unions, and to the local credit unions themselves if they are in need of funds. And local credit unions with surplus funds may deposit them with the state-wide organization.

By 1934 the national credit union movement had become strong enough to take over the work of the Credit Union National Extension Bureau. It was reorganized as the Credit Union National Association, and is now supported by state

leagues of credit unions. Through their national organization—usually referred to as CUNA—credit unions throughout the country are now providing themselves with many additional services of great benefit to individual members. They are assisting in the organization of new credit unions and leagues of credit unions. They conduct educational work directed toward the education of non-members in the advantages of credit unions, the development of better credit union methods and practices, and the encouragement of a wiser use of credit and savings privileges on the part of individual credit union members. They have organized Cuna Supply Cooperative to provide credit unions with office equipment and supplies. They publish *Bridge*, the national credit union magazine. They have organized Cuna Mutual Society to provide insurance services to credit union members.

Cuna Mutual was first organized to provide "borrowers' protection insurance." This form of insurance provides a policy on the life of a borrower in an amount equal to the amount of money which he owes. Credit unions may insure the lives of those of its members who have loans outstanding by taking out a policy with Cuna Mutual. In cases of the death or total disability of the borrower, Cuna Mutual Society pays to the credit union that part of the loan which is still outstanding. To the credit union this means that it need not run the risk of losing money due to the death of one of its members. To the individual borrower this means an assurance that, if he should die, members of his family would not be burdened with an obligation to repay money which he owed. Cuna Mutual also provides group life insurance and individual life insurance to credit union members, at premium rates lower than those of most other companies.

Any description, however brief it may be, of the development of credit unions in the United States, cannot help but show that the credit union movement is successful. The con-

stantly increasing rate at which new credit unions are being founded is a measure of its success. There were approximately 3,000 credit unions in 1935, 6,500 in 1938, and over 8,000 in 1939.

One of the educational tasks of credit unions is to train their members to find out what the total charges for installment credit really are. The problem of discovering these total charges is no easy job, because they are quoted in many different ways and frequently make no mention of extra fees required or extra discounts for cash. An investigating committee in Massachusetts made a study of 105 cases in which the interest rate, or "carrying charge," on installment purchases was quoted at 6 per cent. When the actual rates had been accurately figured, the results showed that, of these 105 cases which gave their charges at 6 per cent, only one was actually 6 per cent. Of the others, 6 cases were between 7 and 10 per cent, 61 cases were between 11 and 20 per cent, 19 cases were between 21 and 30 per cent, 10 cases were between 31 and 100 per cent, and 8 cases ranged from 101 to 679 per cent. The report of a committee in Wisconsin showed results which were similar, though not so startling. This committee found that while most automobile purchasers believed that they were paying between 8 and 12 per cent for credit in buying their cars on monthly payments, they were actually paying between 17 and 40 per cent.<sup>16</sup> If members of credit unions generally realized the true amount of the interest rates which they pay when they buy goods on the installment plan, many would recognize that they could make considerable savings by borrowing money, and paying interest to their credit union, in order to pay cash for their purchases.

#### CONSUMERS' COOPERATION THROUGHOUT THE WORLD

In a general review of consumers' cooperation in the United States for the Bureau of Labor Statistics, Florence Parker pre-

<sup>16</sup> "Buying on Time," *Consumers' Guide*, Feb 13, 1939, p 16

sents, in a few brief paragraphs, a picture of the great variety of kinds of consumers' cooperatives in this country.<sup>17</sup>

"In various parts of this country cooperatives are supplying themselves with one or more of nearly all kinds of service. Thus, through cooperative channels they obtain groceries, bakery goods, meats, shoes, clothing, furniture, hardware, paints (made in some cases by their own plant), all kinds of farm supplies, radios, refrigerators, electricity and electrical appliances, gasoline, motor oil, tires, and other automobile accessories. They can, in some sections, buy ice cream made in their own plant, bread and pastries from their own bakery, milk pasteurized in their own creamery, coffee roasted in their own roasting plant, and sausage and smoked meats from their own factory.

"Cooperators in many places insure themselves against sickness, death, fire, theft, hail, and accident, and insure their automobiles against accidental collision through cooperative or mutual associations. When they fall into debt they borrow from the credit union.

"Medical service is an activity the possibilities of which are being explored with more and more attention. . . . At death, cooperators in certain Middle Western States can be laid to rest by the cooperative burial association.

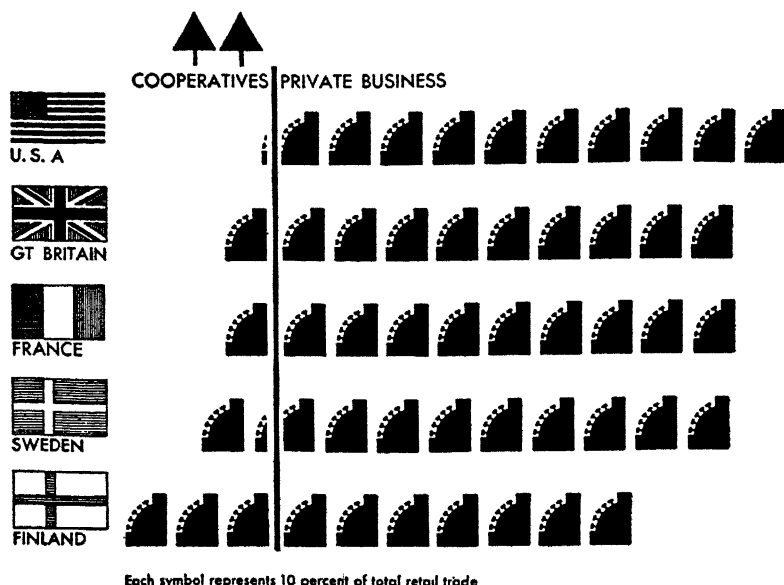
"One group of farmers in the West operates its own coal mine from which the fuel needs of the members are supplied. An association in the East provides bus service for the members' children to and from school. . . . Other services cooperatively supplied include laundry service, printing, and recreational facilities."

Not all, or even a majority of these services are found in all areas of the country. Most regions have some form of consumers' cooperation; and there are a few communities in which the cooperative idea has taken so firm a hold that nearly every

<sup>17</sup> Parker, *op cit*, pp 4-5

family belongs to a cooperative and nearly all kinds of services are provided cooperatively.

## SHARE OF RETAIL TRADE HANDLED BY COOPERATIVES



PICTOGRAPH CORPORATION, FOR PUBLIC AFFAIRS COMMITTEE, INC.

*From COOPERATIVES IN THE U S—A BALANCE SHEET*  
Compared with private business, cooperatives in the United States handle much less retail trade than do foreign cooperatives

The interest of consumers in this country in the development of consumers' cooperatives is not, however, confined to those which have developed within the United States alone, and there are many reasons for our interest in cooperation in foreign countries. Much of the early growth of cooperatives in the United States has been stimulated by the leadership of foreign-born Americans who had learned the cooperative method in the country from which they came. Many foreign countries show a much greater development of consumers' co-



operative enterprises than has been achieved in the United States, and by studying the progress of cooperation in those countries we can learn from their experiences, and we can have some basis for judging to what extent cooperatives can bring increased standards of living to consumers. Moreover, cooperation has become an international movement. We shall see that through international organizations of cooperatives, consumers of different nations are working together to their mutual advantage, and are finding out that the needs and interests of all consumers in all nations are pretty much alike.

#### SUCCESS OF COOPERATIVES IN GREAT BRITAIN<sup>18</sup>

The kind of business which was originated in that little store in Rochdale, England, nearly a century ago has grown into one of the largest business enterprises in one of the greatest industrial and commercial nations of the world. Consumers' cooperatives in England and Scotland serve about one-half of the total population. They handle more than 14 per cent of the total national retail trade, and in some commodities a far larger proportion. The Cooperative Wholesale Society (C.W.S.) in England, and the Scottish Cooperative Wholesale Society (S.C.W.S.) in Scotland are each the largest wholesale business in their respective countries. The two wholesales work in close cooperation with each other, and when we speak of the British (as distinct from the English or the Scottish) cooperative development, we mean the combined activities of the English and Scottish wholesales.

In 1934 the Fourteenth Biennial Congress of the International Cooperative Alliance was held in London. For the benefit of the delegates from nations all over the world, the coopera-

<sup>18</sup> Unless otherwise indicated, the figures and statistics in this section are taken from the Report of the President's Committee, "The Inquiry on Cooperative Enterprise in Europe," Government Printing Office, Washington, 1937, and from *The People's Yearbook*, 1940, C.W.S. and S.C.W.S., Manchester and Glasgow

tives of Great Britain had assembled in the Crystal Palace an exhibition of goods made by the British wholesales. One of the American delegates has described in an interesting manner the impressive array of goods that were on display.<sup>19</sup> One of the exhibits was a modern bungalow, which had been designed by architects of the C.W.S. and built by the C.W.S. building department. It was completely furnished from cellar to roof with fixtures and equipment made by various departments of C.W.S. Rugs, lamps, furniture, dishes, and silverware had been made in cooperative factories. A clothing exhibit showed modern knitting machines making silk stockings, other machines were making shirts and overalls. Shoes were being manufactured. In a different exhibit, tea was being prepared for use, and this tea had been grown on thousands of acres of tea plantations in Ceylon, owned by the cooperatives. Flour, bread, and all kinds of food products were shown. Bicycles, washing-machines, radios, and kitchen pots and pans were all made in cooperative factories. There was even an exhibit of coal from a cooperative coal mine, with a slogan, "There's cash after the ash," referring to the patronage dividends. In 1938 the number of factories and workshops owned by the two British cooperative wholesales equalled 251, and produced nearly every kind of product consumers need, outside of the luxury field. In some fields, a high proportion of the total national production was carried on by the cooperatives. In 1938, for example, about 16 per cent of the total amount of wheat flour and meal milled in Great Britain was produced by the C.W.S. and the S.C.W.S.

There are over a thousand cooperative retail societies in Great Britain. Many of them are very large organizations, especially in the cities. The London Cooperative Society has over a half million members, served by more than 250 branch stores. Over 200 of these branches handle groceries and meat, but

<sup>19</sup> Cowden, Howard A., *A Trip to Cooperative Europe*, North Kansas City, Mo., 1934

others are department stores, drug stores, and other special shops. Members of the London Society may get permanent waves and theater tickets through their cooperative. They can also have their laundry done, have eye-glasses ground to prescription, or rent a bus from the same organization.

This brief description is enough to show the extent to which the cooperatives in Great Britain have expanded their activities to produce and distribute a very wide variety of consumers' goods to a large proportion of the British people. They have also been successful in providing their members with banking and insurance services. The Cooperative Insurance Society is owned jointly by the C.W.S. and the S.C.W.S. It has developed an unusual kind of insurance for members of local retail cooperatives, by which benefits are paid to dependents of members who die. The amounts of the benefits paid are in proportion to the average purchases from the retail society in the three years preceding the death of the members. In this way the benefits vary, depending upon the consumer needs of the family. Members who are covered by this type of insurance pay no regular premiums. Instead they are charged a very small amount on all of their purchases. In 1937, this "premium" amounted to slightly over one cent for each five dollars' worth of goods bought. The Cooperative Insurance Society also provides the more usual forms of accident, automobile, and life insurance. The Banking Department of C.W.S. is one of the three or four largest banking institutions in England.

The growth of cooperative enterprise in Great Britain indicates that it has met with success in supplying the needs of consumers. Some recent developments, which have arisen out of the war-time emergency, indicate further what advantages may be gained by consumers from an organization of their own. Indications are that the British Cooperatives may be about to experience the same kind of rapid increase in membership as that which occurred during the World War of 1914-18. In-

crease in patronage became so great in 1914 and 1915 that the cooperatives had to close their doors temporarily and admit new members only by degrees in order that they might build up their sources of supply to meet the new situation.<sup>20</sup> At that time, the increase was a direct result of rising prices which often reflected war profiteering. The consumers' cooperatives maintained prices as low as possible. The first report of a similar situation at present came after the British government started its rationing system at the end of 1939. All British consumers were required to register with their regular merchants for their supplies of butter, bacon, and sugar. Since each one has only one ration book for each product, and since the books must be deposited with their merchants, the cooperatives might have expected the number of books registered with them to equal the number of their members. Instead, the first 452 cooperatives to report on the totals of their registrations, stated that, although they normally have only 3,942,507 members, 5,735,719 have registered for bacon, 5,978,499 for butter, and 6,849,285 for sugar.<sup>21</sup> These figures indicate a 50 per cent increase in the number of people who intend to buy these products from cooperative societies. They know that the cooperatives can make no profit, and therefore believe that best protection against price increases lies in buying from cooperative stores

#### SWEDISH COOPERATIVES CURB MONOPOLIES

Americans are probably more familiar with the progress of the consumers' cooperatives in Sweden than they are with those of any other foreign country. Swedish cooperatives are respon-

<sup>20</sup> This increase in cooperative membership was not limited to Great Britain. *The International Cooperative Alliance Bulletin* published figures showing the percentages of increase in sales by cooperatives in various European countries in 1915 over their sales in 1914. The increases were 23 per cent in England, 21 per cent in Scotland, 52 per cent in Hungary, 13 per cent in Austria, 45 per cent in Finland, 45 per cent in Sweden, 26 per cent in Holland, and 44 per cent in Norway.

<sup>21</sup> Cooperative League News Service, Press Release, Dec 28, 1939

sible for a decrease in the prices of consumers' needs throughout the whole nation, and even the leaders of private business admit that this cooperative achievement has been of advantage to the public. Over one-third of the families in Sweden are members of cooperatives. The cooperative stores have been leaders in developing modern, scientific methods of merchandising, and their leadership has resulted in attempts of private stores to follow their example. Studies have shown that prices are lowered in any community in which a cooperative store is established.<sup>22</sup> Because of the savings which they return to their members, and because they are strong enough to set their own lower prices and thus establish a lower price level which other retail stores must follow, cooperatives have contributed a great deal to the high standard of living which Sweden enjoys. According to studies by the International Labor Office, Swedish workers have a higher standard of living than that in any other European country, and in the years just preceding the onset of the European war in 1939, the average per capita consumption of such essential food products as meat, eggs, milk, and other dairy products was higher in Sweden than in the United States.<sup>23</sup> While consumers' cooperation does not claim the entire credit for this progress, it has been a major factor in bringing it about.

In 1899 local consumers' cooperatives in Sweden united to form the *Kooperative Forbundet* (Cooperative Union), usually referred to as K F. At first the activities of K F. were limited to those of a center for information, education, and advice; but the members soon realized the advantages to be secured by adding to its duties those of a central buying agency. Its success in pooling orders and buying in quantity lots for its members was so rapid that by 1906 a group of retail dealers succeeded in getting private manufacturers to cancel their agree-

<sup>22</sup> *Inquiry on Cooperative Enterprise*, op cit, p 36

<sup>23</sup> *Ibid*, p 226

ments with K.F., hoping that this might put their new cooperative competitor out of business. But this attempt to handicap K.F. had an opposite effect. Instead of ceasing operations, the buying agency bought a warehouse, and K.F. began doing a regular wholesale business.

Two or three years later a national association of retailers attempted to boycott cooperative enterprise. The margarine supply in Sweden was controlled by a cartel, or trust, which was able to set prices unreasonably high. The margarine cartel attempted to prevent K.F. from selling its product. After a lively struggle, the cooperative wholesale won, and a few years later K.F. began to manufacture margarine of a higher quality than had ever before been sold in Sweden, at prices lower than those of the cartel. The margarine monopoly in Sweden was at an end.

Other attempts to handicap the early growth of K.F. met with similar results. Pressure on banks to get them to refuse credit to consumers' societies resulted in the establishment by K.F. of its own savings department to furnish its own loan capital to member cooperatives. Attempts to defeat or delay cooperative development seemed to work only as an incentive to advance and expand.

The experience of K.F. with the margarine cartel was the beginning of one of the most outstanding achievements of the Swedish cooperative movement, its ability to put an end to monopoly control of commodities in cases where such control was used to exploit consumers. It has succeeded in breaking monopolies on flour, galoshes, and electric light bulbs, by manufacturing those products and selling them at lower prices. It has forced such powerful cartels as the international organization which controlled light bulbs to lower their own prices in turn.

K.F. has gone into the production of many other kinds of goods. Among them are fertilizer, rayon, cash registers, and

dishes. A recent threat to go into the linoleum industry resulted in an agreement on the part of the linoleum cartel to lower its prices 15 per cent. Whenever K.F. goes into production, its products become a sort of yardstick by which standards of price and quality are set up which must be met by other manufacturers. K.F.'s motive is to enter the field of manufacturing only in order to curb or break a policy of unfair prices. Private manufacturers know that as long as they provide consumers with good quality merchandise at fair prices, K.F. will make no attempt to compete with them. But they also know from experience that if they are exploiting consumers by means of poor quality or high prices, K.F. may enter the field. And this knowledge results in advantages which extend even to unorganized consumers, and to products which K.F. has not yet decided to manufacture <sup>24</sup>

"Trust-busting" is not the only achievement of K.F. Its wages and labor conditions are higher than the average in Sweden. It is famed for the modern architecture and equipment of its stores and factories. It has organized fire, casualty, and life insurance companies. The artistic qualities of some of its products have won acclaim even in the United States. Cooperatives in Sweden have made excellent progress in providing cooperative credit and rural electrification, and have developed outstanding examples of cooperative housing.

Swedish cooperatives play an important part in the field of education. A cooperative college selects and trains students for employment in the cooperative movement. Even more widespread is the assistance given by the cooperatives to the development of adult education, through a very effective system of study-circles. K.F. furnishes books, study outlines, other materials, and suggestions for procedure, for the use of about 3,000 active adult study groups with about 40,000 members.

<sup>24</sup> Hedberg, Anders, *Swedish Consumers in Cooperation*, Kooperativ Förbund, Stockholm, 1937

The work of these groups is not limited to the study of co-operation, or even to economic subjects, although these are emphasized. Many groups study subjects of general cultural value. K.F. publishes a weekly magazine which has the largest circulation in Sweden, and it is the largest publisher in the country of books on economic subjects.

Although the cooperative movement in Sweden has met with the opposition of some private business groups, the leading business men in Sweden have expressed themselves in its favor.<sup>25</sup> This attitude is partly due to the policy of the cooperatives not to enter fields in which the consumer is already being satisfactorily served. It results partly from the fact that cooperatives have taken the leadership in establishing high standards of retail trade. It is also due to recognition on the part of business leaders that the cooperatives have succeeded in increasing the purchasing power of low-income groups of consumers, and that all business benefits from this increase in purchasing power.

#### COOPERATIVE DEVELOPMENT IN OTHER COUNTRIES

Great Britain and Sweden are not the only European nations in which consumers' cooperatives have made noteworthy progress. Significant cooperative development has taken place in all of the Scandinavian countries. Until the German invasion of Norway, the cooperative movement there was growing steadily in its activities and influence. In Denmark, cooperation has developed hand in hand with the educational movement represented by the Danish Folk Schools. Together they have played a most significant part in transforming this small agricultural nation from a land of tenant farmers to one of farm owners. Farmers' marketing cooperatives in Denmark have grown to such an extent that their share of the import and export of some important products was as high as 91 per cent; and consumers' cooperatives handled about 11½ per cent of the total Danish

<sup>25</sup> *Inquiry on Cooperative Enterprise*, op cit., p 235



retail trade in 1938. Until the occupation of Denmark by Germany, cooperation played a very important role in Danish life, and was one of the principal factors that had made Denmark known as a nation with little poverty and a high standard of living. But in Denmark, as in Norway, the fate of the cooperative movement is now in doubt, because of the occupation and control of those countries by Nazi Germany.

The development of cooperation in Finland began at about the end of the last century, when Finland was a grand duchy under the control of Russia. For the greater part of the nineteenth century, the Czars of Russia had permitted a considerable degree of self-government in Finland, but toward the last few years very definite attempts were made to "Russify" Finland, to restrict the Finns in their civil rights, their local self-government, and even the use of their own language. These encroachments of an autocratic government were resisted by the freedom-loving Finns. Under the leadership of Hannes Gebhard, a scholar and teacher who had studied the development of cooperatives in western European countries, the *Pelervo* society was organized, for the purpose of fostering Finnish national spirit and of developing cooperative organizations for improving the economic conditions of the people. This dual purpose resulted in a rapid and successful growth of Finnish consumers' cooperatives, which, in 1937, represented between 25 and 30 per cent of the nation's total retail trade, and over 50 per cent of the total population of Finland. Two large national wholesale societies serve their member retail cooperatives. Cooperative factories, owned by consumers, produce matches, lumber, brushes, flour, margarine, hosiery, chemicals, and clothing. The Finnish cooperatives, in spite of the hardships and destruction resulting from the Russian invasion in 1939, are now playing an important part in the rebuilding of their nation.

In the little country of Iceland, cooperatives serve about 50 per cent of all the people. They own a woolen mill, a clothing

factory, shoe, soap, and glove factories. They have introduced great improvements in the marketing of meat. An unusual activity of cooperatives in Iceland, as reported by their delegates to a meeting of the International Cooperative Alliance, is the piping of hot water from the natural hot springs into green-houses and homes for heating purposes. The Icelandic cooperative wholesale society has branch offices in Scotland and Denmark, through which to arrange for purchasing and importing products needed by its members.

Cooperatives have been developed by consumers in most European nations. Belgium, Czechoslovakia, Austria, and France all had cooperative movements of importance; but their future, now that those countries are occupied and controlled by a totalitarian Germany, is extremely uncertain. Germany itself, and Russia and Italy as well, had consumers' cooperatives of many kinds. Some had been outstanding in their success. But with the rise to power of totalitarian dictatorships in these countries the cooperative movements have been destroyed. Cooperatives in Switzerland have made unusual progress, and in some Swiss cities more than half of the total business is done cooperatively. Cooperatives in some parts of Ireland have shown a tendency to supply all kinds of goods and services through one single organization embracing most of the activities in the community.<sup>26</sup>

In Latin America the consumers' cooperative movement is only beginning. In Argentina most of the cooperatives which handle goods are in the rural areas, but there has been an extensive development of cooperative electricity societies in the cities. Unlike the conditions in rural United States, where no supply of electricity was available until it was provided by cooperatives, the consumers in Argentina cities did have access to electricity, but the unsatisfactory service and unreasonable

<sup>26</sup> For further descriptions of cooperative development in European countries, see: *Inquiry on Cooperative Enterprise in Europe*, op cit., Part III

rates gave consumers the incentive to provide themselves with electric service. In 1938, 63 of these cooperative electricity societies had been able to provide electric current at half the price charged by the private companies, and still earn 6 per cent on their capital investment. Another large South American country, Brazil, has developed some consumers' cooperatives, most of them providing credit to their members, but some providing goods. In Chile there is an awakening interest in cooperation, represented by over 50 consumers' societies organized within the past few years. The Mexican government is actively encouraging the growth of cooperatives by providing assistance in organization and in educational work, and even a correspondence school. There are about 1,000 consumers' cooperatives in Mexico, most of which have been formed since 1934.<sup>27</sup>

The cooperative movement in Canada is extensive in agricultural areas, and is showing steady growth. In many regions its story is similar to that of cooperative development in parts of the United States. But the most unusual and significant development of cooperative enterprise in Canada is that which has taken place during the past few years in Nova Scotia and the Maritime Provinces on the eastern seacoast.

The leadership in the cooperative development in Nova Scotia centers in St. Francis Xavier University in Antigonish, through its extension department. Educators at "St. F.X.," as the University is usually called, had tried the usual forms of education, and had found that they were not enough to enable people to solve their economic problems. They believed that the job of the University was to reach all of the people in their area, rather than only the few who could afford a college education. And so the task of their extension department was to provide adult education in all localities within reach. The type of adult education that would be most worth while would be something more than a mere study of subjects in which people

<sup>27</sup> *The People's Year Book*, op cit., pp 204-243

might have an interest. It should be the kind of study that would give the students the knowledge and ability to do something constructive to improve their own conditions.

Most of the people who live in the territory served by St. F.X. are fishermen, miners, and farmers. Their economic conditions were very bad. But the leaders in the University Extension Department believed that the best and soundest method of improving those conditions would be through the efforts of the people themselves. In order that the people might do that, education was necessary. Mass meetings were held, and study groups were organized. For the most part the members of these study groups taught themselves, with the aid of advice and materials provided by St. F.X. They studied the methods and principles of cooperation as a way to improve their standard of living. Study led to action. Often they began with a credit union, because it met an immediate need, because it did not require buildings or equipment, and because it would enable them to finance other enterprises later. They organized stores. They organized cooperatives for the purpose of canning and marketing their fish. Some began cooperative medical service. A cooperative wholesale was established.

One of the most interesting cooperative achievements in Nova Scotia has been in the field of cooperative housing. In the town of Reserve Mines consumers had conducted a study group, organized a credit union, and organized a store. They wanted to start something new, and they decided to build houses. Most of the houses in Reserve Mines are two-family houses, 50 or 60 years old, and most of them look like all the others. They have no cellars, few lawns. The floor boards of many of them rest on the ground. The miners who live in them get low wages, and pay rent of about \$10.00 a month. The group of cooperators who decided to build houses could not afford to pay much more than that. But they began to meet weekly to study housing and to find out how they could secure

good homes of their own. The story of their efforts, as told by the American woman who assisted them in organizing their cooperative, and planning and building their houses, reads almost like fiction.<sup>28</sup> They planned carefully and sought expert advice. They hired experts for the most difficult part of building, but did much of the work themselves. They kept complete records of their costs in little notebooks called scribblers. When they finished building their little town of "Tomkinsville" they had clean, attractive, well-built homes, with room for lawns, gardens, and playgrounds. They had more modern conveniences than they had known before. And their monthly payments on their houses were \$9 65, plus a contribution of \$2.50 to a reserve fund to be used for repairs and to make the payments of a member who might be temporarily unable to continue his installments.

The success of the development of adult education and economic cooperation in Nova Scotia has aroused widespread interest throughout the United States and Canada. The methods used have set an example which is being followed in many other places in both countries.<sup>29</sup>

#### INTERNATIONAL COOPERATIVE ORGANIZATION

The International Cooperative Alliance was established in 1895, and is an association of national cooperative federations of 35 nations. Delegates from these nations meet in a congress held every third year. Through the Alliance, cooperative organizations throughout the world work together to further their objectives and to promote the ideals of cooperation. The Alliance has an international study center at its headquarters in London, it conducts annual international cooperative schools, it collects and distributes information, publishes the *Review of*

<sup>28</sup> Arnold, Mary E, *The Story of Tomkinsville*, The Cooperative League, N Y, 1940

<sup>29</sup> For an account of the cooperative development in Nova Scotia by one of its leaders, see Coady, M M, *Masters of Their Own Destiny*, Harper, 1939

*International Cooperation*, and maintains friendly relations among the cooperative organizations of all countries. One of its aims is the promotion of universal peace through cooperation. *The People's Year Book* for 1940 states that 70 million consumers and their families are represented in the organizations which are members of the International Cooperative Alliance.

The International Cooperative Wholesale Society has a membership consisting of the principal wholesale cooperatives of European countries and of the United States. It is a federation for the purpose of promoting international trade between cooperatives of different countries.

#### AN EVALUATION OF CONSUMERS' COOPERATION

To evaluate any activity, organization, or institution, we must consider two factors: first, its aims and purposes; and, second, the extent to which it has achieved or can achieve those aims. If we find that its aims are worthy ones, that the accomplishment of its purposes would improve our conditions, and that the methods it uses are such that its purposes can be accomplished, then we decide that the activity which we are considering is of value, and we support it. If we do not approve of its aims and methods, or even if we do approve of them but find that they are impossible of achievement, then our decision is against such activity. It is the duty of each citizen in a democracy to be able to evaluate intelligently all of the issues on which he may be called upon to make a decision.

It is important, therefore, for consumers to be able to evaluate the cooperative method. For, as consumers, we make decisions whenever we make purchases. If we patronize one form of business, we are supporting that business. In other words, we "vote with our dollars" in the way we spend them. There are many different opinions about consumers' cooperation in the United States. If we are to make our own decisions wisely,

we should consider those opinions and try to find out how well founded they are

A large proportion of the people in the United States probably have no very definite opinion about cooperatives. Many do not even know what cooperatives are. But each year more of them are finding out about cooperatives, and are forming their opinions. People who are active in the cooperative movement are enthusiastic supporters of it. They devote considerable time and energy not only to working for its success but also to persuading other people of its value. They do this because they believe it can improve the condition of the consumer and help to develop a better economic life. Representative bodies of all of the major faiths in the country, Protestant, Catholic, and Jewish, have endorsed the cooperative movement because they believe that the principles of cooperative enterprise are in accord with the ethics of all great religions, and because they believe that cooperatives may be able to contribute to better conditions. The leaders of the two major political parties have endorsed the development of consumers' cooperatives.

But, on the other side, there are some who vigorously oppose cooperative development. Some of them oppose it because it seems to them to be a new method, one that is in competition with another method which they favor. Whenever a new kind of business develops there is opposition from the older form whose place the new one takes. There is often a fear that the new form of enterprise may destroy something of value in the older form, or that it may bring about unforeseen or undesirable results. This fear is usually unfounded, for new institutions are likely to succeed and grow only if they are able to contribute as much or more to the satisfaction of the needs of the people as the older institutions have contributed.

Different forms of consumers' cooperative enterprise receive different degrees of opposition. Practically no one opposed the development of the farmers' township mutual insurance com-

panies a century ago, because they were small organizations growing up to satisfy an urgent need which no existing business organization was willing to attempt to satisfy. The same situation has to a large extent applied to credit unions. We have seen that when the Federal Credit Union Law was passed in Congress, there was no dissenting vote. On the other hand, the development of cooperative retail stores seems to bring about a greater degree of opposition, because they operate in direct competition with thousands of other business enterprises. It is frequently said that the cooperative store will eliminate the small storekeeper who has contributed so much to the service of the community. But most small storekeepers themselves are not nearly so concerned with opposing cooperatives as they are with opposing chain stores and super-markets, because they know that at present the latter organizations are a far greater threat to their existence. Some of them, recognizing their weakness in trying to compete with the tremendous buying power and financial strength of the chain stores, decide that they would rather be managers of cooperative stores than be forced out of business by the chains. They see that through their cooperative wholesales it is possible for cooperative stores to develop a large volume and thus be able to meet the chains in buying power; at the same time, unlike the chains, they continue to return savings to members of the local community and maintain democratic control.

The attitude of private business enterprise toward cooperatives varies considerably, but perhaps one of the best sources of information with regard to that attitude may be found in the report of the Domestic Distribution Department Committee of the Chamber of Commerce of the United States. This report does not oppose consumers' cooperatives, in the sense of advocating any action to prevent consumers from organizing and operating their own business enterprises. It does believe, however, that private business can do better than cooperatives can,



given an equal chance, and therefore it opposes any form of government assistance to cooperatives. To quote from the report

"During the development of the commercial life of the United States there has been developed a great variety of retailing organizations. With shifts in population and with changes in consumers' desires, new forms of retailing have been devised. These newer forms of distribution frequently are competitive with businesses earlier established. A retailer who through the excellence of the services which he has rendered, obtains an important position in his locality, cannot complain against a new form of competition. So long as such competition remains on a fair and equal basis and contains no element of government subsidy, competent American merchants can be counted upon to pit their experience and skill against all rivals."<sup>30</sup>

The Chamber of Commerce Report does object to government aid to cooperatives, which, it states, has taken three forms in the United States: "(1) Through the passage of laws by 34 states permitting the incorporation of cooperatives under special charters, (2) through granting of tax exemptions, and (3) through aid given in the form of financing and technical advice."<sup>31</sup>

With regard to the first form of government action, these cooperative laws, providing special charters of incorporation for cooperatives, are merely laws that permit cooperatives to operate according to their principles. Without these laws, it was usually impossible for cooperatives to incorporate and still follow the Rochdale principles, because the only existing laws required such provisions as one vote for each share of stock and the use of a system of proxy voting. Such special laws,

<sup>30</sup> Domestic Distribution Department Committee, Chamber of Commerce of the United States, *Cooperative Business Enterprises Operated by Consumers* Washington, 1936, pp. 30-31.

<sup>31</sup> Chamber of Commerce Report, p. 22.

which allow cooperatives to follow the principle of one vote per member, or that of the return of patronage dividends to members in proportion to their patronage, or limiting the amount of interest on shares, can hardly be considered a subsidy to cooperatives from the government, unfair to private business.

With regard to tax exemption of consumers' cooperatives, it is so little in evidence in the United States that the objection on the part of the Chamber of Commerce was probably aimed at a fear that some future tax exemptions might be granted. It is true that in many cases the amount of net earnings which is returned to consumers in the form of patronage dividends is not subject to income tax, but this is because it is really not income to the cooperative, but represents an "over-charge" to be returned to the patrons. Private business is itself so accustomed to government assistance in the form of tariffs on imports, that it recognizes the effects which can result from the use made of the government's power to levy taxes, and wants to prevent such power being used to favor one form of business enterprise against another.

The objection to government aid given in the form of financing and technical advice also must be aimed at a fear of future aid which might be given. The report mentions that substantial financial assistance has been given to producers' cooperatives. This assistance has been in the form of loans made to farmers' cooperatives, and although it does not apply to consumers' cooperatives, it should perhaps be mentioned that loans made to farmers' organizations are more than counterbalanced by loans made by the government to such private business enterprises as banks and railroads, through the Reconstruction Finance Corporation. The only financial assistance which the Report mentions as being given to consumers' cooperatives is that of loans to rural electrification cooperatives. But, as we have already seen, the Rural Electrification Act provides for government loans, for the purpose of building rural electrifica-

tion lines, to private companies, at the same rates and with the same assistance as those to cooperatives. Some private companies have taken advantage of these loans. The fact that more cooperatives have done so does not make this loan policy of the government one which discriminates unfairly against private business. As to the information and technical advice, here too the government offers such services to private businesses as well as to cooperatives.

With respect to government aid, cooperatives themselves are in agreement with the Chamber of Commerce. Leaders in the consumers' cooperative movement want no special assistance. The Cooperative League of the U. S. A., at its congress in Columbus, Ohio, in 1936, went on record as opposed to subsidies from the government. Cooperatives want only equality with other forms of business enterprise.

Some of the opposition to consumers' cooperative enterprise arises out of a misunderstanding of what consumers' cooperation really is. Sometimes cooperation is confused with socialism, although in most respects the two are directly opposite. Socialism advocates government ownership and control of industry, while cooperation advocates private ownership by consumers. Under socialism all people would be compelled to share in the ownership, and to contribute, through funds raised by taxes, to government enterprise. Under cooperation, sharing in the ownership by investment of capital is entirely voluntary. There are so many forms of socialism that statements applying to all of them cannot be too specific, but all socialist theories advocate the extension of government activities into the economic field to a greater or less degree. On the other hand, cooperation advocates the performance of as many economic activities as practicable by voluntary organizations of consumers. And finally, the aim of cooperation is to extend the private ownership of more things to more people, rather than the limitation or elimination of private ownership.

There is much evidence to show that in the field of quality and honest labeling of food products, the cooperatives in the United States are making considerable progress. In order that private business might learn what attracts members to the cooperative store movement, the magazine *Sales Management* published a report of a survey on that subject made by the Ross Federal Research Corporation. This survey was made among 400 members of nine retail cooperatives in cities in eastern United States. The cooperative stores chosen are typical of many throughout the country. Three of them are among the largest and best managed stores, two are badly managed, and the others are average. The primary purpose of the survey was to discover the most important reasons why people belong to cooperatives. A set of fifteen reasons was formulated, and the 400 members were asked to rate each reason according to its importance. The answers showed that the most important reason, one considered vitally important by 88.5 per cent of those who answered, was that: "Cooperatives can be depended upon to tell the whole truth about merchandise." The next most important reason, rated vitally important by 80.3 per cent, was that: "Even where there is no money saving, the cooperative member may reasonably expect better quality." Other reasons given high ratings were. "The fact that more than 600 items are now available under a uniform co-op label contributes highly to the convenience and ease of purchasing," 74.3 per cent; "Brand gradings and labeling are more explicit and understandable than in private stores," 72.8 per cent, "Cooperatives are the beginning of a new and better way of life based on the ideal of human cooperation, each for all and all for each," 69.5 per cent; and "Cooperatives are a protection against monopoly prices and practices of private industry," 65.2 per cent.<sup>32</sup> Most of the members questioned believed that the prices

<sup>32</sup> "What Attracts Members to the Cooperative Store Movement?" *Sales Management*, May 15, 1940

in the cooperative stores were about the same as those of near-by chains and super-markets, but their answers show definitely that they believed that the cooperatives furnished them with better quality and more complete and honest information.

History seems to show that democracy is safe only when all of the people have an opportunity to secure to a reasonable degree the necessities of life. In a time like the present, the preservation of democracy requires the exertion of all possible effort to see that all of our people have a chance to achieve economic security. Consumers' cooperation works toward that end. But it does more than that. It emphasizes the idea that it is up to the people to do their share to provide themselves with economic security. Instead of encouraging consumers to blame others for their conditions, or to demand that government should provide them with an increasing number of their needs, it develops activity on the part of the people themselves. It not only emphasizes the ideal of the responsibility of individuals to take part in democratic activity, but it demonstrates that this ideal is workable, and that ordinary people can accomplish very significant achievements if they work together in democratic organizations. And it exerts every possible effort to provide the people with the education and training necessary for intelligent participation in such activity.

Each successful achievement, however small, which is reached through democratic effort, serves to confirm the faith of those who participated in that achievement in the value of the democratic method. To the extent that consumers' cooperatives can contribute to an increase in faith in democratic procedure, an understanding of problems of democracy, and a recognition of the duty of each individual to assume his share of the responsibility of making democracy work, it will make a valuable contribution to the kind of life which we regard as the American ideal.

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## SUGGESTED ACTIVITIES

1. The statement is often made that "Cooperation arises as a result of need." Discuss this from the point of view of informal cooperation on the part of American pioneers, of the founders of the Rochdale Society in England, of those who organized some modern cooperative in the United States.
2. If there is a consumer cooperative organization in your community, visit its principal place of business and interview its manager, officers, and members. Find out the reasons why it was started, what its chief aims and purposes are, the ways in which it follows the Rochdale principles. Interview civic leaders and those in private business, as well as those in cooperative business, to find out what they think are the chief advantages and disadvantages of cooperation. Try to classify and analyze the replies.
3. Make a chart or table in which you compare and contrast a consumer cooperative with an ordinary corporation from the following points of view: who furnishes the initial capital; how is the business controlled; how is voting conducted, who may become members or shareholders; how the earnings are distributed.
4. Read about and make a report on the life and achievements of one of the noted cooperative leaders: Hannes Gebhardt in Finland; Bishop Grundtvig in Denmark; Kagawa in Japan; Edward A. Filene in the United States, Robert Owen in England.
5. Consult references for individual or group reports on cooperatives in other countries. Some interesting topics include: the "trust-busting" activities of Swedish cooperatives; the development of credit and medical cooperatives in India and Japan; the general-purpose cooperatives in Ireland, cooperatives in Switzerland, especially their development in Basle. Some good references are: Goslin, *Cooperatives*, Baker, *Cooperative Enterprise in Europe*; Tereshtenko, *The Problem of Cooperative Medicine*; and the *Encyclopedia of the Social Sci-*

ences. (See also References, pages 318 to 328). These reports might be presented to the class by means of stories, or by dramatized accounts of cooperators from different countries.

6. Read and report on the Public Affairs Pamphlets, *Credit Unions*, *the People's Banks*, *Credit for Consumers*, and *Loan Sharks and Their Victims*. Investigate the need for consumer credit in your community, including in your study the kinds of lending agencies available to consumers and the actual interest rates they charge. Interview the officers and members of a local credit union to find out the advantages it offers to its members. Write to the Credit Union National Association at Madison, Wisconsin, for information on credit unions in your state.

7. Read a current magazine article on the development and progress of some plan for cooperative medical care. What advantages or disadvantages do you see in the plan? Read and report on Dr. Michael A. Shadid's book, *A Doctor for the People* (Vanguard). Analyze arguments for and against cooperative medicine as given in Tereshtenko, *The Problem of Co-operative Medicine*.

8. If there is a township mutual insurance company in your locality find out how long it has existed and what its premium rates are. Compare these rates with those of other companies.

9. Write to a cooperative wholesale in your part of the country for information and material on its history, purposes, and services to its members. If you do not know where such a wholesale is located, such information can be secured from the Cooperative League of the U. S. A., 167 West 12th St., New York, N. Y., or 608 S. Dearborn St., Chicago, Illinois.

10. Make a list of various kinds of consumer cooperative associations in the United States, indicating the kinds of goods they handle or services they perform. Which do you think are of most value to consumers?

11. Write a brief article explaining reasons you would give for joining a consumer cooperative association, or reasons you would give for refusing to join.





are closely related to other interests of major importance, which should be mentioned even if they cannot be discussed here. Our interests as producers are so closely allied with our interests as consumers that problems relating to one cannot be solved without a recognition and consideration of problems related to the other. Most adults are producers as well as consumers. As producers they want better incomes and better working conditions. Workers want higher wages, and farmers want better prices for the products of their labor. As consumers we want lower prices, but no intelligent consumer wants lower prices at the expense of a fair wage to labor or a fair price to the farmer. Nor do laborers benefit by increased wages if the extra income which they get is more than counterbalanced by the increased prices which they pay.

In the long run, problems of producers and of consumers must be solved in relation to each other. We are producers only because we are consumers, and we want to improve our conditions as producers in order to be able to consume more. We want to develop increased production in order that we may use more consumer goods and services. Careful scientific studies show that, although we have heard much about overproduction and surpluses, there is great need for increased production if all of the consumers of the country are to have enough goods and services to provide the standard of living that we all want. As producers we will receive the benefit of the increased employment required to provide the standard of living which, as consumers, we are trying to achieve.

Our interests as consumers are also closely related to our interests as citizens. As citizens we are interested in good government. We have already seen how great a part is played by government activities and governmental policies in providing consumer needs and in influencing the position of the consumer. As consumers we cannot afford to forget the importance of our democratic form of government. Nor can we overlook the tre-

mendous effects which international affairs have on our interests. We need only to consider how many of the products we use come from foreign countries, and how much of the goods we produce is sold in other parts of the world, to realize how our interests are tied up with world affairs. If consumers in other nations cannot afford to buy the products of our factories and farms, and if conditions of war interfere with international trade, consumers in America suffer as a result. Therefore as consumers and as citizens we must be concerned with the degree of prosperity in other parts of the world, with the development of foreign trade, with the maintenance and defense of American democracy, and with the establishment of international peace.

The task of satisfying our interests as consumers through democratic action offers to the individual an unusual opportunity for action which is directed at the same time toward improvement of his own condition and toward improving the conditions of others. Each person must necessarily direct his efforts toward providing his own and his family's needs, yet each person also feels an urge to do what he can toward the broader ideal of human progress. Because of the interdependence of modern society, it is impossible for the individual consumer to have much direct, personal contact with the complicated machinery of production and distribution through which his desires are attained. He must work with and through many others, and he must recognize that his desires are closely related to theirs. He cannot, in the long run, hope to secure his own personal well-being unless they, too, can do likewise. The democratic method in political and economic life has evolved to enable individuals to achieve together a goal that they cannot achieve separately, a goal which represents their own self-interest as well as their ideals of human welfare.

It is because we live in a democracy that our problem is a hopeful one; we know we may take part in its solution. We

cannot blame others too much if we have not been able to attain our needs and desires, since we are free to do our part to attain them. We may achieve them through education, through the exercise of our buying power in choosing the goods and services we want, through our government, or through working with other consumers in cooperative organizations. It is also because we live in a democracy that we must assume our responsibility for our own problems, and learn enough about them to make wise decisions. The task we face is two-fold, and its different phases cannot be separated from each other. We must satisfy our major interests as consumers if we are to continue to live in a democratic society, and we must maintain and extend our democracy in order to achieve our interests as consumers.

REFERENCES

TEXT MATERIAL FOR THE TEACHER

The following are some of the most valuable recent books on consumer economics on the adult and college level.

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## FILMS

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Note: These are only a few suggestions with regard to movies available for use as teaching aids. The number and variety of moving pictures, film strips, and other visual aids are constantly increasing. Divisions or departments of visual education in many universities and in some state departments of education give up-to-date information on such educational films. A *Directory of Film Sources*, frequently revised, published by the Victor Animatograph Corporation, Davenport, Iowa, is one of the most comprehensive lists of film sources available. It reports on films available from government sources, educational and religious agencies, industries, film producers and distributors, and local film libraries. It indicates which films are suitable for schools, and which are loaned free to schools.

### GENERAL REFERENCES

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"Consumer Credit Cost Calculator": simple way to figure true interest rates.

"Stretching the Food Dollar": how to save money on food bills.

"Stretching the Clothing Dollar": planning, buying, and care of clothing.

"Marrying on a Small Income"

"Better Buymanship Bulletins" are 2½¢ each. Each bulletin deals with wise purchasing of one product, such as gloves, shoes and stockings, furs, wool clothing, electric vacuum cleaners, refrigerators, soap, cosmetics, toys, gasoline and oil, tires, home heating, floor coverings, and various foods. Write for current list.

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- 34, 35, 165, *see also* Budget, Prices, Purchasing Power
- Canned goods, grading by government, 209, labels, 43-51, 57, 194, 254
- Carrying charges, *see* Installment buying
- Census Bureau, Business, U S, 80, 81
- Central Cooperative Wholesale, 251
- Chain store, consumer interest in, 102-104
- Chain store taxes, 102-104
- Chamber of Commerce of U S, Domestic Distribution Dept Committee, Report on Cooperatives, 302
- Charge accounts, 80-82, 274-276, 278, 284
- Charts, Functions and Costs of Distribution, 65, Growth in the United States, 20, Growth of Cooperative Wholesale Societies, 251, Installment Sales, 83, Price Spreads, 70, Share of Retail Trade Handled by Cooperatives, 286, Who Lends Money to Consumers, 277
- Children's Bureau, Dept of Labor, 183
- Citizens' interests, 310-313
- Clayton Act, 97
- Cloquet Cooperative Society, 249
- Coal, *see* Bituminous coal
- Colleges, housing cooperatives, 257
- Committee on Costs of Medical Care, 143-145, 155
- Committee on Distribution, Twentieth Century Fund, 101, 102
- Competition, advertising, 121, 204, chain store tax, 102-104, cooperatives, 246, "fair trade" law, 98-101, monopolies, 96, 97, price, 74-79, protection of consumers, 96, restricting trade between states, 104, trade associations, 176
- Compulsory health insurance, 157-159
- Connecticut, food and drug acts, 212
- Conservation, 7, 8
- Consumer cooperation, definition, 227, 234; evaluation of, 300-307, in foreign countries, 286-299, in U S, 238-286, reasons for, 26, 31, 39, 40, 227, 228
- Consumer Cooperatives, democratically controlled, 230-236, 241, 243, 247, 263, 265, 271, 272, 274, in U S, 227-272, *see also* Cooperatives
- Consumer credit, *see* Credit
- Consumer education, 161-175, 233, 242, 252, *see also* Education
- Consumer Education Association, 164, 165
- Consumer interests, advertising, 108-127, 179, 204, 205, chain store, 102-104, cooperatives, 227-307, credit, 274-284, Defense Commission, National, 219, education to understand, 161-167, 242, 252, government, 182-224, grade labeling of canned goods, 49, 254, health insurance, 152-159, 265-272, industry, effect on, 24, 25, insurance, 136-139, 152-159, 183, 187, 188, 240, 241, 243, 258-272, 283, in U S, 310-313, labels, 43-51, 54, 57, 161, 164, 176, 193, 194, 197-203, 206-208, 254, labels, cooperatives, 47, 254, movement of, 1, 28, 29, pioneer and present day, 10, Protection American Medical Association, 170, 171, Better Business Bureaus, 177, 178, fire insurance, 240, 241, 243, 258-264, government, 16, 17, 27, 39-42, 45, 57, 58, 69, 135-141, 145-152, 166, 167, 182-209, 219-224, health insurance, 152-159, 265-272, trade associations, 176, relationship to producers' interests, 7, 310-313, services. educational, 5, 6, 134, health, 5, 6, 27, 141-159, public utilities, 130-134, recreation, 4, 5, 135, rural electrification, 272-274, security, 135-140, tariff, effect of, 1-4, taxes, 90-95, testing of products, 167-175
- Consumer problems, 8, 10, 31, 161, 219-224, 310-313, *see also* Consumer interests, Needs of consumer
- Consumer-Retailer Council, National, 180

- Consumer welfare, *see* Consumer interests
- Consumers Cooperative Association of North Kansas City, Missouri, 248
- Consumers' Counsel of AAA, 164, 184
- Consumers' Counsel, Bituminous Coal Commission, 218
- Consumers' Guide*, 3, 76, 184
- Consumers' Project, Dept of Labor, 184
- Consumers' Research, 172
- Consumers Union, 172
- Consumption, fields of, 4-6, in early American life, 10
- Contracts, *see* Installment buying, Insurance
- Cooperation, pioneer life, 14, *see also* Consumers cooperation
- Cooperative health associations, principles insuring best medical service, 269-272
- Cooperative Housing Association, 257, 258
- Cooperative Insurance Mutual, 263, 264
- Cooperative League of U S A, 241, 242, 305
- Cooperative movement, 301
- Cooperative Publishing Association, 252
- Cooperative wholesale societies, growth of, chart showing, 251
- Cooperative Youth League, 252
- Cooperatives, competition, 246, corporations, compared, 235-237, credit unions, 280-284, definition, 227, 234, democratic solution consumer needs, 243, democratically controlled, 230-236, 241, 243, 247, 263, 265, 271, 272, 274, Electric, 132, electrification, rural, 272-274, grocery stores, 249, health insurance, 265-272, home building, 257, 258, housing, 255-258, housing in Canada, 298, 299, in Canada, 297, 298, in Denmark, 294, in England, 228-234, 287, in European countries, 286-296, in Finland, 295, in Great Britain, 286-290, in Iceland, 295, 296, in Latin America, 296, 297, in Scotland, 287, in Sweden, 290-294, in U S, 238-286, Insurance Great Britain, 289, health, 265-272, hospital care, 154-159, mutual, 240, 241, 243, 258-264, Sweden, 293, interest rate, 232, 236, 237, international movement, 287, 288, 296, 299, label, 47, 254, 306, label, sample canned food, 47, medical care insurance, 265-272, oil associations, 243-249, petroleum products, 243-249, Producers Finland, 295, Sweden, 292, 293; purpose, 41, 237, 238; quality, 306; rationing system, Great Britain, 290, reason for, 227, 228, retail, 238-240, 242, 249-252 Finland, 295, Great Britain, 288, 289; Rochdale, 228-230, Rochdale principles, 230-234, rural electrification, 189, 192, 272-274, socialism, compared, 305, telephone companies, mutual, 132, wholesale, 241, 242, 247, 250-254, 263, 264 Finland, 295, Great Britain, 287, 288, international society, 300, Sweden, 292, 293
- Corporations, cooperatives, compared, 235-237
- Cosmetics, advertising regulated, 204, government regulation, 196, 199, 200, 203, 204
- Cost, *see* Price
- Cost of distribution, advertising, 108-127, chain stores, 102-104, credit, 80-87, definition, 63-66, milk, 68-79, monopolies, 75-79, profits, 67, 68, retail dealer, 79-90, services, 79-90, taxes, 90-95
- Cost of living, average income, 62, budget, 166, sales tax, 92, tariff, 2, 3, 106
- Cost of production, definition, 63, 64
- Council on Dental Therapeutics, American Dental Association, 171
- Council on Food, American Medical Association, 169-171

- Council on Pharmacy and Chemistry, American Medical Association, 170-171
- Credit, charge accounts, 274-276, 278, 284, factors in determining use of, 34, 35, installment buying, 274-276, 278, 284, interest rates, 276, 278, 279, 281, 284, lending agencies, chart, 277, price, 80-87, 276, types of, 80-87, goods purchased on, 80, use of, wise, 34, 35
- Credit Union National Association, 282
- Credit Union National Extension Bureau, 282
- Credit Unions, 280-284
- Cuna Mutual Society, 283
- Cuna Supply Cooperative, 283
- Dairy Industry, Bureau of, 184, 209
- Defense Commission, National, 219
- Defense of American democracy, 310-313
- Democracy, choice of goods and services in, 33, 34, 35, 36, consumers' interests in, 310-313, consumer problems in, 8, 29, cooperatives, evaluation of, 300-307, defense of, 310-313, government and consumers in, 182-224, methods of solving consumers' problem in, 40-42, principles of, control cooperatives, 230-236, 241, 243, 247, 263, 265, 271, 272, 274, public medicine in, decision on, 150, 159, Rochdale principle, 230-234
- Denmark, *see* Cooperatives
- Dental Association, American, 171
- Dental services, 141-148
- Depression, effect of, on consumer, 25, 28, England, 1840-50, Rochdale (cooperative), 228-234, prices, 62
- Distribution, cost, 63-66, 68-127, functions and costs, chart, 65, mass, 103, workers, 20
- Division of labor (specialization), 20, 21
- Drugs, advertising regulated, 204, 205, adulteration of, 193-195, 200-203, labels, 199, *see also* Food and Drugs
- Duty, *see* Tariff
- Eastern Cooperative Wholesale, 252, 253
- Economic insecurity, effect on consumer, 136
- Economy Mutual Health Association, 267, 268
- Education, consumption of, 5, 6, 134, Consumer, 161-175 Canada, 297, 298, Central Cooperative Wholesale, 252, Cooperative League, 242, Cooperative Youth League, 252, Denmark, Danish Folk Schools, 294, England, 233, Sweden, 293
- Eggs, grading of, 214, 215
- Electricity, *see* Rural electrification, Utilities, public
- England, cooperative movement, Rochdale, 228-234, *see also* Cooperatives
- Equitable Society of Rochdale Pioneers, 229
- "Fact Booklets" (Better Business Bureaus), 178
- Factory, *see* Industrial revolution
- "Fair trade" laws, prices, 98-101
- Farm Bureau Mutual Auto Insurance Company, 264
- Farm Credit Administration, 280
- Farmers' cooperatives, Grange, 239, 240, mutual insurance, 240, 241, 243, 259, oil association, 243, rural electrification, 188-192, 272-274
- Farmers' marketing cooperatives, Denmark, 294
- Farmers' mutual insurance companies, 240, 241, 243
- Farmers' Union Cooperative Health Association, 156
- Farmers' Union Cooperative Hospital Association, 268
- Farmington Mutual Fire Insurance Company, 259, 260
- Federal Credit Union Act, 282

- Federal Deposit Insurance Corporation, 183
- Federal Housing Administration, 187, 188, 258
- Federal Trade Commission, advertising, 169, 204, 205, milk, cost of distribution, 71, 72, 76-78, price fixing, 97, 99.
- Federation of Business and Professional Women's Clubs, national consumer education, 164
- Fields of consumption, definition, 4-6
- Filene, Edward A., 282
- Finance companies, personal, 278-279
- Finland, influence on cooperatives in U S, 249
- Fire and storm insurance, mutual (co-operative), 240, 241, 243, 258-264
- Fire protection, 15, 183
- Food and Drug Act, Pure, 192-203
- Food and Drug Administration, 193-203
- Food and drug laws, 39, 58, 69, 104, 192-205, 211-216, 221
- Food and drugs, advertising regulated, 204, 205, eggs, grading of, 214, 215, meat, grading of, 207, 208, meat inspection, 206, 207, milk, 68-79, 209, *see also* Goods
- Food, Council on, A M A, 169-171
- Foreign countries, cooperatives, 286-299
- Forgotten man, 1, 2
- Franchises, *see* Monopolies
- Fraud, advertising, 114-117, 126, 127, 204-206, Better Business Bureaus, 177, 178, drugs and medicines, 170, 171, mails, use of, 185, 186, methods, common, 38, 39, pioneer life, 16, 17, stocks and bonds, 206
- Friendly Society for a Mutual Insuring of their Houses against Fire, 259
- Gasoline, *see* Oil, Petroleum
- General Federation of Women's Clubs, consumer education, 163, 164
- Goods, buying, 165, canned, 43-51, 57, 194, 209, 254, choice of, 33-36, 114, 115, 127, 161, consumers, 4, 5, 31, 33, cooperatives, 227-258, credit, 274-284, grading of, 48-51, 57, 209, 214-216, 254, income, relation to consumption, 31-36, labels, 43-51, 57, 194, 254, quality in pioneer life, 16, testing of, 167-175
- Government, consumers, aid to, 182-209, cooperatives, aid to, 303-305, private business, aid to, 304, 305, public medicine, 148-153
- Government protection to consumer, 16, 17, 27, 39-42, 45, 57, 58, 69, 135-141, 145-152, 166, 167, 182-224
- Government regulations, 217-224, advertising, 197, 203-206, attitude of business, 103, 104, food, drugs, cosmetics, 193-203, 206, 207, health, 141, 149, 185, 186, 192-205, 209, labels, 193, 194, 197-203, 206-208, 212, 213, 217, local, 209-217, quarantine, 104, state, 209-217, uniformity, 220, utilities, 131-134
- Government, service for consumers, 14, 15, 45, 46, 48, 49, 55, 56, 90-95, 134, 135, 182-224, 272-274
- Grade labels, *see* Labels
- Grange, 239, 240
- Great Britain, *see* Cooperatives
- Group Health Association in Washington, D. C., 156, 266, 267
- Group Health Mutual, 266, 267
- Group insurance, hospital and medical care, 154-159, 266, 267
- Guild system, 22
- Health, cooperatives, 265-272, insurance, 152-259, 266, 267, Post Office Department, 185, 186, Pure Food and Drug Act, 192-205; services for, 5, 6, 27, 141
- Health, State Department, Maine, 212
- Health service, public, 186, 209
- Home building cooperatives, 257, 258
- Home Economics Association, American consumer education, 164

- Home Economics Bureau, 184  
Housing Administration, Federal, 187, 188, 258  
Housing associations, cooperatives, 255-258  
Housing, cooperative, Canada, 298, 299  
*Hygeia*, 171
- Income, relation to consumption, 7, 31-36, typical American family, 62, *see* Budget  
Industrial banking companies, 277  
Industrial revolution, 12-23, effects on consumers, 17, England, in, 18, 22, factory, 18, 19, United States, in, 21-23  
Installment buying, 80, 83-87, 274-276, 278, 284  
Institute for Consumer Education, 165  
Insurance, cooperatives, 258-264, 266-272, economic insecurity, 136-139, federal deposit insurance corporation, 183, Federal Housing Administration, 187, 188, Great Britain, 289, health (hospital and medical care), 152-159, 266-272, "merit rating," 260, Sweden, 293  
Insurance, mutual, cooperative, 240, 241, 243, 258-272, credit union members, 283, farmers' and township mutuals, 240, 241, 243, 258-264, health, 265-272  
Interest rate, charge accounts, 276, 278, 279, 281, 284, cooperatives, 232, 236, 237, credit, 276, 278, 279, 281, 284, credit unions, 280, 281, 284, installment buying, 276, 278, 279, 281, 284  
Interests of Consumer, *see* Consumer interests  
Inter-Mountain Consumers' Service, 172  
International Cooperative Alliance, 288, 296, 299  
International Cooperative Wholesale, 300  
International Labor Office, 291
- Justice, Department of, Anti-trust Division, 97, 98
- King, Dr William, cooperatives, 229  
Kings County Medical Service Bureau, Seattle, Washington, medical care insurance, 156
- Labels, aid to consumer, 54, 254, canned goods, 43-51, 57, 254, cooperatives, 47, 254, 306, cosmetics, 212, descriptive, 46, 47, 50, 51, 254, grade, 46-51, 57, 180, 206-208, informative, 161, 164, misbranding, 193, 194, 200-203, *New England Quality Label*, 216, Pure Food and Drug Act, 193, 194, 197-203, sample Co-op, 47, state regulations, 212, 213, 217, trade associations, 176  
Labor, Department of, Children's Bureau, 183, labor's interests protected, 218  
Labor, International Office, 291  
Labor Statistics, Bureau of, consumers' cooperatives, 284, consumers' projects, 184, cooperative wholesales, 253, housing, cooperative, 255  
Latin America, *see* Cooperatives  
Laws, *see* Legislation  
League of Women Voters, consumer education, 164, Pure Food and Drug Act, 203  
Legislation, anti-trust laws, 96-101, Bituminous Coal Act, 218, butter, legislation regulating, 213, "fair trade" laws, 98-101, Connecticut Food and Drug Act, 212, Credit Union Act, Federal, 282, Clayton Act, 97, food and drug laws, 39, 58, 69, 104, 192-205, 211-216, 225; local and state, 209-217, Maine, legislation regulating cosmetics, 212, monopoly, 96-98, North Dakota food and drug acts, 213, Oregon, legislation regulating butter, 213, Sherman Anti-trust Law, 96, 99, Social Security Act, 139, 140, Wheeler-Lea Act, 204, 205



- Loan companies, 277  
 Loan sharks, 277, 278, 279  
 Local laws, consumer interests, 209-217  
 "Loss leader" prices, 100  
  
 Magazines, testing institutes, 168, 169  
 Maine, legislation regulating cosmetics, 212  
 Manufacturers, *see* Producers  
 Marketing Association, American, 254  
 Mass distribution, chain store, 103  
 Mass production, 19, 222  
 Meat, grading by government, 207, 208  
 Meat Inspection Act, 206, 207  
 Medical Association, American, 169-171  
 Medical Care, Committee on Costs of, 143-145, 155  
 Medical care, consumer of, 5, 141-148, 158, 159, cooperatives, 265-272, insurance, 152-159, public medicine, 148-152  
 Medicine, *see* Drugs  
 Medicine, cooperative, 269-272  
 Medicine, public, 148-152  
 Midland Cooperative Wholesale, 247  
 Milk, distribution cost, study of, 68-79, standard ordinance, 209  
 Misrepresentation, *see* Fraud  
 Monopolies, capitalistic, 76, definition, 74-78, legal—copyrights and patents, franchises, 75, 76, legislation, 96-98, natural, 75, 76, price, 74-79, 96-98, Sweden, 292, utilities, public, 75, 131-134  
 Mutual insurance, *see* Insurance  
  
 National Canners Association, 50, 51  
 National Congress of Parents and Teachers, consumer education, 164  
 National Consumer-Retailer Council, 180  
 National Cooperatives, Inc., 253, 254  
 National Defense Commission, consumer interests, 219  
 National League of Women Voters, consumer education and welfare, 164  
 National Resources Committee, 62  
 Needs of consumer, cooperatives, 227, 228, 240, 244, 249, 258, 265, 272, 280, credit, 274-279, 284, Great Britain, 289, recognition of, 23, 24, 27, 28, 95, 179, 180, 182, 187, 191, services, 130-159 solution of, 310-313, state and local laws, 211, 217-224, Sweden, 294  
 New England Council, 217  
*New England Quality Label*, 216  
 North Dakota, food and drug acts, 213  
  
 Ohio Farm Bureau Federation, 264  
 Oil association, cooperative, 243-249  
 Oklahoma Farmers Union, 269  
 Oregon, legislation regulating butter, 213  
 Owen, Robert, 229  
  
 Parents and Teachers, National Congress, consumer education, 164  
 Patent medicines, 147, 194, 197, 198  
 Patronage dividend and refund, 232, 237, 238, 239, 247, 251, 256, 261, 262  
 Patrons of Husbandry, 239  
 Pawn brokers, 277, 278  
 Personal finance companies, 278, 279  
 Petroleum products, cooperatives, 243-249  
 Philadelphia Contributionship, 259  
 Population increase, growth, 20  
 Post Office Department, 15, 183, 185, 186  
 Postal System, U S., 223  
 Preventive medicine, 270, 271  
 Price fixing, Anti-trust laws, 96-101, "fair trade" laws, 98-101  
 Price spreads, chart, 70  
 Price wars, 246  
 Prices, charge accounts, 276, competition, 74-79, consumer interest in, 23, 25, 28, 29, 61-63, 161, cooperatives, 233, Great Britain, 290, Sweden, 290-294, credit, 276, definition, 63, determining factors, 63-127, fair price, 39, 40, 61-127, installment buying, 276, "loss leaders,"

- 100, lower, need for, 61-63, 105, 106, products, rating of, 173, quality (relationship), 45, 46, 53, 54, 61, tariff, 2, 3, 39, 40, 93-95, utilities, 133, 134, World War, 244
- Printers' Ink*, 177
- Problems of consumers, 8, 10, 31, 161, 219-224, 310-313, *see also* Consumer interests
- Producers (manufacturers), advertising, 108-127, brand names, 44, 49-54, consumer demands, 28, consumer interests, 310-313, cooperatives Finland, 295, Sweden, 292, 293, definition of, 6, 7, prices, 63, standards, U S (List of manufacturers who meet U S Standards), 56, 57
- Production, change from home to factory, 12-18, cost, 63, 64, home, 10-18, industrial revolution, 12, pioneer life, 10-18
- Production, mass, 19, 222
- Production workers, 20
- Products, adulteration of, 193-195, 200-203, Co-op, 254, grading of, 48-51, 57, 209, 214-216, 254, testing of, 167-175, *see also* Goods
- Profits, advertising, 111, 123, cooperatives, 231, 232, 237, 261, 273, 274, Corporations, 236, 237, definition, 64, 66-68, monopoly, 78, tariff, 93
- Protection, consumer, American Medical Association, 170-171, Better Business Bureaus, 177, 178, competition, 96, insurance, 136-139, 152-159, 183, 187, 188, 240-243, 258-264, 266-272, health, 5, 6, 27, 141, 152-159, 185, 186, 192-205, 265-272, trade associations, 176, *see also* Government
- Public Health Service, 27, 186, 209
- Public medicine, 148-152
- Public utilities, 131-134
- Purchasing agency for cooperatives, Central National Cooperatives, Inc., 253, 254
- Purchasing power, increased by cooperatives, Sweden, 294, lower prices, 61-63, 105, 106, sales tax, 92; use of, 25-26
- Pure Food and Drug Act, 45, 192-203
- Quality, advertising, 112, 120, 122-127, chain store, 102-104, consumer interest in, 18, 19, 23, 25, 28, 29, 61-63, cooperatives, 306, determination of, 36, 37, 43-58, information on, 43-58, 254, labels, 43-58, 254, pioneer life, 16, price, relationship, 45, 46, 53, 54, 61, problem of securing, 36-37, 43-58, 161; testing agencies, 167-175
- Rating products, 172-175
- Reconstruction Finance Corporation, 304
- Recreation, consumption of, 4, 5, 135
- References, 314-328
- Regulations, *see* Government regulations, Legislation
- Research, consumers' testing and rating agency, 172
- Retail credit association, 81
- Retail cooperatives, 238-240, 242, 249-252, 302, Finland, 295
- Retail dealers, consumer, relationship, 179, 180, cost of distribution, 65, 66, 79-90, credit, 80-87, services, 79-90, testing agency, 171
- Retail Federation, American, 179
- Retail societies, Great Britain, 288, 289
- Retail stores, cooperative, 238-240, 242, 249-252, 302
- Review of International Cooperation*, 299, 300
- Rochdale Cooperative, 228-234
- Ross Federal Research Corporation, 306
- Ross-Loos Medical Group, 155, 156
- Rural electrification, 188-192
- Rural Electrification Administration, 189-192, 272-274
- Rural electrification cooperatives, 272-274

- Sales Management*, 306
- Sales tax, 90-92
- Savings, 2, 3, 7, 8, 56, 110, 111, 137, 205, 206, 245, 246, 250, 258, 260-262, 271, 276, 280, 284
- Savings and loan association, F D I C, 183
- Schools, consumer education, 162
- Scotland, *see* Cooperatives
- "Seal of acceptance" and "seal of approval," 168-175
- Securities and Exchange Commission, 206
- Securities laws, 39, 206
- Security, 135-140
- Services, advertising, 108-127, choice of, 33-36, 161, 167, 168, 173; co-operatives, 227, 258-284, credit, 274-284, definition of services consumed, 4-6, 8, 14, 31, 33, pioneer life, 14-17, retail dealer, 79-90, utilities, public, 131-134, *see also* Government Services to consumer, Health Insurance
- Sherman Anti-trust Law, 96, 99
- Slater, Samuel, 22
- Socialism, cooperatives, compared, 305
- Social security, 138-140
- Social Security Act, 139, 140
- Specialization, 20, 21
- Specifications, *see* Standards
- Standard of living, 1, 19, 28, 29, 41, 42, 105, 106, 108, 114, 228, 234, Denmark, 294, Sweden, 291, 293
- Standards, advertising standard products, 123, 126, cooperatives, 252, 253, grading, 45-49, 69, 207, 208, 214-216, Rochdale Cooperative, 233, safety, 58, 69, state laws, 214, 216, testing products, 168, 173, trade associations, 176, U S Government, 55, 56, 183, 184, 187, 190, 194, 206-209
- Standards, Bureau of, 55, 56
- Standards for advertising, 170, 177
- Standards of Weights and Measures, 16, 17
- State laws, consumer interests, 209-217
- Sweden, *see* Cooperatives
- Table showing terms used to describe eggs, 215
- Tariff, 1-3, 39-41, 93-95, 304
- Taxes, chain store, 102-104; medical services, 145, 146, 149, price, 90-95, social security, 138, 139
- Taxes, sales, 90-92
- Testing agencies, cooperatives, 252, 253, examination of products, 167-175, retailers, 180, state, 212-216
- Testing institutes, 168, 169
- Township mutual insurance, 240, 241, 243, 258-264
- Trade, *see* Competition, Monopoly
- Trade associations, definition, 176, labels, 57, retail dealers, 27, 179, 180
- Trade Commission, Federal, *see* Federal Trade Commission
- Trade mark, Co-op, 254, *see also* Brand names
- Transportation, needs of consumer, 221-223, price, relation to, 18, 64, 70-74, 105
- Underwriters' Laboratories, Inc., testing agency, 172
- Unemployment, compensation, 139, security against, 136-139
- Union shops (cooperative stores), 229
- United States Government Agencies, Agriculture, Department of, 163, 184, 193-203, 206, 207, 208, 218, Agricultural Marketing Service, 184, 207, 208, Animal Industry, Bureau of, 206, 207, Anti-trust Division of Department of Justice, 97-98, Bureau of Home Economics, 184, Bureau of Labor Statistics, 184, 253, 255, 284, Bureau of Standards, 55, 56, Census Bureau, Business, 80, 81, Children's Bureau, 183, Consumers' Counsel of AAA, 164, 184, Consumers' Counsel of Bituminous Coal Commission, 218, Farm Credit Administration, 280, Federal Deposit Insurance Corporation, 183, Federal Housing Administration, 187, 188, 258, Federal Trade Commission, 71,



- 72, 76-78, 97, 99, 169, 204, 205,  
 Food and Drug Administration,  
 193-203; Labor, Department of, 184,  
 National Defense Commission, 219,  
 Post Office Department, 15, 183,  
 185, 186, Public Health Service,  
 27, 186, 209, Rural Electrification  
 Administration, 189-192, 272-274,  
 Securities and Exchange Commission,  
 206, *see also* Government and Legis-  
 lation  
 Union shops (cooperative stores), 229  
 Universities, housing cooperatives, 257  
 Utilities, public, 131-134, rural electri-  
 fication, 189, 191, 192, 272-274  
 Volume of goods, growth in, 20  
 Voluntary health insurance, 152-159  
 Vote (with our dollars), 25, 26, 300  
 Warbasse, Dr J P, 242  
 Welfare of consumer, *see* Consumer  
 interests  
 Wheeler-Lea Act, 204, 205  
 Wholesale cooperatives, 241, 242, 247,  
 250-254, 263, 264, England, 287,  
 Finland, 295, Great Britain, 287,  
 288, international society, 300, Scot-  
 land, 287, Sweden, 292, 293  
 Women's Cooperative Guilds, 252  
 Workingmen's Protective Union (co-  
 operative, early), 238, 240